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VOL. 4

APRIL, 1945

No. 3

The Decay of Liberalism

By FRANCIS NEILSON

SUMMARY: I: THE BACKGROUND OF LIBERALISM. II: THE EARLY RADICALS AND THEIR INFLUENCE. III: COBDEN, BEARER OF THE LIBERAL STANDARD. IV: THE EFFECT OF THE BOER WAR. V: THE RIOT OF SUPERFICIAL IDEAS. VI: INFILTRATION OF THE FABIANS. VII: EXPOSING THE FALLACY OF MARXISM. VIII: SENTIMENTAL REFORM AND LEGISLATIVE CHAOS. IX: FUNDAMENTAL REFORM—TOO LATE. X: A CONFUSION OF CHARITY WITH JUSTICE. XI: IMPERIALISM CRUSHES THE GREAT REVIVAL.

I CAN REMEMBER the time when it was possible in this country to meet Radicals and Liberals in nearly all the important centers of every State. There were societies where one could speak on Paine and Jefferson, with the certainty that the audience would not only be interested but would understand what these men meant to America. There are few Radicals and Liberals in the country now. Most of them are to be found among the Georgists who promulgate the gospel of "Progress and Poverty."

Nothing marks so clearly the disappearance of the Radical and the Liberal from the scene as the loose manner in which editors use these terms. Here is an instance of the confusion in the minds of the journalists which could not have occurred fifty years ago. An editorial in a midwestern paper of large circulation begins as follows:

In all the election post-mortems there is one thing everybody is agreed upon. It is that Mr. Roosevelt got the radical vote solid. Throughout

the country the Reds and the pinks, the Communists and the fellow travelers plumped for the President. . . .

I wonder if the editor knows anything about Radicals or Radicalism. Perhaps he has not taken the trouble to look into the history of the Radical movement to learn how it was merged into the Liberalism of Cobden's day. Would he know a Radical if he met one and conversed with him? I feel sure he would be amazed to find that such a one was a disciple of Paine and Jefferson. Neither Radicalism nor Liberalism has been an issue in party strife in this country since World War I. The Liberalism of Woodrow Wilson, as laid down in "The New Freedom,"¹ was the last to be preached by a politician, and many of his notions of what it was would not have been acceptable to the Liberals of Gladstone's day.

I

The Background of Liberalism

WHAT WAS LIBERALISM? Search as one may the works of the nineteenth century, the labor will be in vain if the purpose of the quest is to find a precise definition of the term, one that can be understood in the world of practical politics. I have looked through John Morley's "Life of William Ewart Gladstone"² again for a clear statement from either biographer or subject, and I fail to find it. There are pages and pages devoted to philosophical discussions, but not even a paragraph reveals Gladstone's notion of what Liberalism was. Perhaps early in his political career he realized it was impossible to devise the formula of a party creed that would satisfy the Radical element. He used to say that man was the least comprehensible of creatures; and of men the most incomprehensible were the politicians. If Gladstone did not take the trouble to tell us what he considered Liberalism was, I know of none of his associates who supplied a definition.

¹ New York, Doubleday Page & Co., 1913.

² Three volumes, London, Macmillan and Co., 1903.

Therefore, our search must go in another direction, and that points towards Richard Cobden. It is only in his speeches and writings, as edited by John Bright, Thorold Rogers, and John Morley,³ that I find the bedrock of Radicalism upon which the Liberalism of Gladstone's policy was built. Time has in no way aged the truth of the principles enunciated by that great international Englishman who bore the brunt of the battle against domestic and foreign tyranny during the nineteenth century. The principles of Cobden are principles that do not change. They remain impervious to all the political, diplomatic, industrial, and social evils that perplex the minds of clergymen, politicians, sociologists, and latter-day philosophers.

Professor Thorold Rogers, in his book, "Cobden and Modern Political Opinion,"⁴ unfolds the story of the conditions that prevailed in England when the Reform Bill was carried in 1832. This work is invaluable for a proper understanding of how the principles of the Whigs and Radicals were finally merged into the doctrine of Liberalism.

When Mrs. Grote wrote, for private circulation, her little brochure called "The Philosophical Radicals of 1832,"⁵ she told us of "the active and zealous efforts made by the Liberals, or, as they were then willing to be termed, the Radicals, of the City of London." This is of great interest because it is the earliest reference to the merging of the names Liberal and Radical.⁶

George Grote came in at the head of the poll in 1832 for

³ John Bright and James E. Thorold Rogers, "Speeches on Questions of Public Policy by Richard Cobden, M. P." (2 vols.), London, Macmillan and Co., 1870; John Morley, "The Life of Richard Cobden," Jubilee edition (2 vols.), London, T. Fisher Unwin, 1896; "The Political Writings of Richard Cobden," with a Preface by Lord Welby (2 vols.), London, T. Fisher Unwin, 1903.

⁴ London, Macmillan and Co., 1873.

⁵ London, Savill and Edwards, 1866.

⁶ About the year 1819 Harriet Martineau, in her "History of the Peace," wrote: "It is stated to have been now that the Reformers first assumed the name of Radicals" (Vol. I, p. 226).

the City of London. The author of "A History of Greece,"⁷ he was a rich banker. In this respect, it amuses me very much to find the absurd use to which the term Radical is put by uninformed editors and superficial politicians in the United States. Anything connected with Socialism or Communism is labelled by loose thinkers here as "Radical." It is only in recent years that it has been so abused by the thoughtless. It might aid some of our presumptuous writers if they were to take the trouble to look into the history of British politics since the rise of the Whig party so that they might learn who the Radicals were and what they stood for.

The student should have no difficulty in tracing the descent of the political doctrines expressed by Fox and his party in opposition at the time of Pitt down to the period when Cobden entered the House of Commons. There is a literature, accessible to all, which deals vividly with the parliamentary vicissitudes from the time of the rise of the Whig party down to the close of Cobden's career. Some of the finest English essayists have given us volumes of fascinating studies of the men and the measures of that long period. We owe to Sir George Otto Trevelyan, in his works on Fox,⁸ an intellectual debt for his exhilarating pages that describe not only the events in the political arena but the conditions under which rich and poor lived in those days. His portraits of the men who ruled England as well as those who opposed Bute, North, Pitt, and the Georges are models of design, the strength of which time does not diminish.

When I hark back to this period, I fail to understand how the men of today have neglected to set before our people the story of the last great struggle for English liberty, in which the American colonies triumphed against George III. The

⁷ Twelve volumes, London, John Murray, 1851.

⁸ "The Early History of Charles James Fox," New York, Harper & Brothers, 1880; "George the Third and Charles Fox" (2 vols.), London and New York, Longmans, Green and Co., 1912.

debates in the House of Commons are now a revelation of the principles that animated the souls of English patriots. In looking once again over the scenes enacted in England and portrayed by Liberal historians and the great essayists, I regret how little has been done in these latter days to record the affinities that should have endured and which should have united us not only in speech but in economic and political principles. The history of the growth of Liberalism, as it can be gathered from the pages that I refer to, is one of the most thrilling historical developments to be found in the annals of any State. But now that we are conscious of having taken the wrong turning in our affairs, it seems rather late to repair the breach, for the decay which began to eat into the members of the body politic in the late eighties, both in England and in the United States, must be attributed to the willful neglect of using the past to interpret the present and to anticipate the future.

II

The Early Radicals and Their Influence

THERE WAS NO PERIOD in English history so rich in basic constitutional thought as that which extended from 1760 to 1850. In those ninety years giants of economic and political wisdom thronged the scene, and their activities in and out of Parliament saved the country from the disastrous rule of the Hanoverians and their disreputable supporters.

Thomas Paine was thirty years old in 1767, when he taught at Gardiner's School in London. It should not be overlooked that the letters of Junius, which have been attributed to Paine, also appeared in that year. For seven years before he sailed for America Paine had been at the very center of the Radical uprising in London, and the thought and style of "Common Sense" and "The Crisis" reveal the true source of their origin—the English Radical school revived by John Wilkes.

London, for four years before Paine taught school at Kensington, had been the hotbed of the Radical movement. John Wilkes and Charles Churchill, in the *North Briton*, by their scathing denunciations of the government, had roused the people to action. The *North Briton* was a sensational adventure which was heartily welcomed and soon its circulation increased and spread in all directions.

The Radicals who desired the British Constitution to be reaffirmed and reestablished soon revealed to the King and his sordid ministers that they made their appeal for reform in the name of the disfranchised people of England. Not for centuries had the true gospel of English political thought been expressed in clear terms. Wilkes reaffirmed the principle of lawful government:

. . . Government is a just execution of the laws which were instituted for the people for their preservation; but if the people's implements, to whom they have trusted the execution of those laws, or any power for their preservation, should convert such execution to their destruction, have they not a right to intermeddle? Nay, have they not a right to resume the power they have delegated, and to punish their servants who have abused it? If a King can do no wrong, his ministers may, and are accountable to the people for their conduct.⁹

Franklin was in London at that time, and no doubt he followed the political uprising of the city with deepening interest as it progressed, for his acute mind would quickly grasp its significance to the affairs of the colonies. Perhaps he sent most of the papers and pamphlets issued by the Radicals to his friends in America, for those in Pennsylvania and in Massachusetts, who were in revolt against the British Government, spoke and wrote the same political creed that the Radicals of England voiced and published. Paine met Franklin in London in the years when John Cartwright wrote his ten letters, which appeared later under the title "American Independence the Interest and Glory of Great Britain."

⁹ *North Briton*, Number 19.

Now that we have Dr. Harry Hayden Clark's admirable volume, "Thomas Paine,"¹⁰ it is not difficult to trace the influence of the English Radicals' thought and style upon the writings of the American champions of liberty. Jefferson said:

No writer has exceeded Paine in ease and familiarity of style, in perspicuity of expression, happiness of elucidation, and in simple and unassuming language. In this he may be compared with Dr. Franklin; and indeed his *Common Sense* was, for awhile, believed to have been written by Dr. Franklin, and published under the borrowed name of Paine. . . .¹¹

The most active of the early Radicals were John Cartwright, John Jebb, Richard Price, and Joseph Priestley.¹² Cartwright was born in 1740. When a youth he served in the navy on the Newfoundland Station, but he soon saw that there was no career for him there, and he resigned his commission. Perhaps among the great Radicals "there is no more pleasing figure than that of this genuine and sincere, this single-minded, simple-hearted man."¹³

In certain circles he enjoyed a great reputation as a writer on political affairs, and his pamphlet on American Independence, published in 1774, made a great impression upon the politicians. It was followed by "Take Your Choice," perhaps the earliest work on parliamentary reform.

Cartwright, of course, did not receive his due while he lived, though he was called the father of reform. It was not until long years after he died that anyone thought it worth while to look into his history for the purpose of discovering the contributions of the man. It was then found that he had left behind him innumerable sayings that had the stamp of high morality upon them. Indeed, many of them entered

¹⁰ New York, American Book Company, 1944.

¹¹ Jefferson's "Writings," Monticello edition, XV, p. 305.

¹² C. B. Roylance Kent, "The English Radicals, An Historical Sketch," London, New York and Bombay, Longmans, Green and Co., 1899, pp. 67 *et seq.*

¹³ *Ibid.*, p. 68. See also "Life and Correspondence of Major Cartwright," edited by his niece, F. D. Cartwright, 1826.

into the current sayings of the people themselves. Here are some that became general during the awful periods that followed Waterloo: "the principles of politics are the principles of reason, morality and religion." He remarked that the requirements of a statesman are a knowledge of "a few of the plain maxims of the law of nature and the clearest doctrines of Christianity." One axiom that was used by many of the Radicals who followed him was: "the title to liberty is the immediate gift of God, and is not derived from mouldy parchments." Although he was ridiculed and considered something of a bore by many of the men who, deep in their hearts, felt that he was right, a generation later English laborers were speaking the same language Cartwright had used; and those who sympathized with the rebels in the counties during the struggles before the Reform Act of 1832 realized that Cartwright expressed the true Radical principle when he said: "Moderation in conduct is wisdom, but moderation in principle is dishonour, and moderation in justice is injustice."¹⁴

Jebb, in expressing the new philosophy, was considered an even more redoubtable foe of tyranny than Cartwright. He was educated at Trinity College, Dublin, and at Cambridge. He distinguished himself as second wrangler. Later on he took a medical degree and practiced successfully as a physician. The Society for Constitutional Information owed its foundation largely to his energy and persistence. To him must be attributed the well-known statement: "Don't tell me of a moderate man, he is always a rascal."

But for our particular interest we must turn to Price and Priestley. Lord Shelburne (the Marquess of Lansdowne) himself thought highly of Price's essays on "Providence" and

¹⁴ For further details about the period, see Esmè Wingfield-Stratford, "The History of British Civilization," New York, Harcourt Brace and Company; London, George Routledge and Sons, 1928, Vol. II, pp. 805 and 911.

"The Junction of Virtuous Men in a Future State."¹⁵ His pamphlets on the American Revolutionary War were famous and found favor with Shelburne when he became Prime Minister. When Price's fame reached America, the United States Congress beseeched him to settle in this country and to give his assistance in the regulation of the finances of the newly founded State. As a political philosopher he is second to none of the period.

Joseph Priestley is the one of the four whose name is best known here. He was the first of the English Unitarians, a minister of the gospel, a scientist, and a political philosopher of great power, whose influence was felt in England and in this country long years after he passed away. Priestley's essays have lost none of their radiance.¹⁶ The principles enunciated in them are as sound today in this world of chaos as they were when they were delivered in a world that had fallen so low politically that many thought it could not survive.

It has often been said that the great school of Philosophical Radicals owed its foundation to Priestley. It is only necessary to name some of the members of that famous body formed by George Grote, James Mill, and Sir William Molesworth to recall to our minds the days when a thorough examination was made of the political state of England and when principles were formulated that guided the Liberals who gathered round Gladstone. There was no branch of statecraft, no political study in connection with the conduct of a statesman that the Philosophical Radicals did not explore. It may be said that they were the men who set England once again upon her political feet.¹⁷

¹⁵ See biographical note on Richard Price in *The Encyclopaedia Britannica* and in the memoir by William Morgan.

¹⁶ His collected works, edited by J. T. Rutledge, were published in 25 volumes.

¹⁷ For further references on this subject see Francis Neilson, "Prospects for a Revival of Political Radicalism," *AM. JOUR. ECON. SOCIO.*, Vol. 3, No. 1 (October, 1943), pp. 15-27.

So much has been written by authors who have not taken the trouble to study the Radical movement in England that I consider the whole period should be reviewed again because new material has been gathered in a disjointed way during the past twenty years. For example, the nonsense that was written about the Manchester School of economists will scarcely bear examination now. Moreover, it is possible today to see the Philosophical Radicals in a new light. Many of their prophecies have been fulfilled. They pointed out the dangers that have gathered about parliamentary institutions since the beginning of the century. Indeed, some of them were seers and realized that, once the people departed from the Radical road, there was no choice but to go in the direction of Socialism. It was not Toryism they feared so much as it was bureaucratic rule. And no one will deny that today bureaucratic rule is destroying the people everywhere.

Although a review of the debilitating periods through which we have passed since Cobden, Gladstone, and Lincoln laid down their work can be of use only to the student, it is certainly worth while to take soundings again for spiritual and intellectual reasons and to learn that the great promise of the cause of liberty was not destroyed by its implacable opponents but by alien forces from within, which used the organization of Liberal movements for socialistic purposes.

III

Cobden, Bearer of the Liberal Standard

WHAT DID COBDEN stand for, and how are we to recognize him as the standard-bearer of the principles enunciated by the men who opposed North and Pitt? In these days of reckless extravagance we scarcely know what is meant by the slogan on the banner of Liberalism: "Peace, Retrenchment and Reform." But the words sum up succinctly the economic and political principles of Richard Cobden. Thorold

Rogers tells us that he knew Cobden intimately from his youth. In the preface that he wrote to "Cobden and Modern Political Opinion," he says:

. . . They who had similar advantages will bear me out when I say that Cobden was ready to speak upon every topic of public interest, and that his knowledge of facts was as remarkable as the clearness with which he interpreted the moral or political significance of events. . . .¹⁸

Cobden acted with the Liberal party. But he was not a partisan. From the beginning of his career to its close, he declared himself willing to accept reforms from all hands. It is easy to see why he acted with the Liberal party, for the nation has obtained every improvement in law and finance, every development of civil and religious freedom, every concession to justice and equity from those administrations which have been brought into power by the Liberal party. It is true that in many cases these reforms have been granted slowly, grudgingly, and imperfectly. But there will not be, and cannot be, any reaction from a genuine Liberalism. It is only when a government which has been brought into power by liberal opinion, plays false with its principles, or declines to develop its policy, or makes ignoble alliances, or affronts the convictions of those who have made it what it is, that the progress of liberal opinion is arrested, and its vigour is paralysed.¹⁹

This was written in 1873. It is a prophetic note, for who will fail to recognize that, when Liberalism played false with its principles, decay was certain to set in?

There was no shifting expedient in the composition of Cobden. The principles he cultivated were firmly held on all occasions. Rogers says:

. . . In public and private he denounced war as a barbarous and irrational expedient for removing a difficulty. He saw that it demoralised those who adopted it. He endorsed Bentham's definition of it, that it was "mischief on the largest scale." He saw that when the war fit is on a nation, there is no place left for reason and argument; that it was simple waste, unmixed evil. He believed that no war in the world's history was necessary, and therefore that none was capable of defence. . . .²⁰

¹⁸ *Op. cit.*, pp. v and vi.

¹⁹ *Ibid.*, p. xvi.

²⁰ *Ibid.*, p. 109.

In his famous pamphlet entitled "Russia," which was published in 1836, he demanded: "As little intercourse as possible betwixt the *Governments*, as much connexion as possible between the *nations* of the world."²¹ The italics are Cobden's.

He never flinched. He was not known to hesitate to speak his mind firmly and clearly in the House of Commons and in the country. And now when we read the speeches and the pamphlets, we realize—alas, too late—what a singularly great political prophet he was.

As it so often happens with particular men, their contemporaries fail to estimate them at their true value. They are too near the protagonist, and the bitterness of the conflicts in parliamentary life cloud their vision. Years must pass before the mists that gather round a stalwart man pass from him and he stands out in a clear light for those of the generations to come to see him as he was and to appreciate his greatness. Yet, just after Cobden passed away, Gladstone wrote to his brother, Robertson:

What a sad, sad loss is this death of Cobden. I feel in miniature the truth of what Bright well said yesterday—ever since I really came to know him, I have held him in high esteem and regard as well as admiration; but till he died I did not know how high it was. I do not know that I have ever seen in public life a character more truly simple, noble, and unselfish. His death will make an echo through the world, which in its entirety he has served so well.²²

Later he wrote: "Cobden's name is great; it will be greater."²³

With Gladstone at the helm at that time, there seemed no reason why the principles enunciated by Richard Cobden should suffer from decay. Cobden had left to the Radicals of the Liberal party a special mission to be promulgated from their platforms, and that was to deal with the land question as he had dealt with protective tariffs. He counselled them to revalue the land of the country and to levy taxes upon it.

²¹ *Ibid.*, p. 129.

²² John Morley, "The Life of William Ewart Gladstone," Vol. II, p. 143.

²³ *Loc. cit.*

Why was this not done? Many reasons have been given for the omission:

- (1) The legislative machine was burdened with highly controversial questions that did not affect the economic condition of the people.
- (2) Cobden left no upstanding heir as a missionary of influence.
- (3) The great increase in trade, after the abolition of the Corn Laws, and the remission of taxes in Gladstone's famous budgets, gave the masses a false sense of security. The fights for betterment had been so long and strenuous that the people had become tired and somewhat complacent.

Many other reasons have been given, but I think that there was no machinery of organization left in the country for such a mission after the Corn Law League was dissolved. Indeed, Gladstone himself lamented that the Liberal party was without organization and held that, if it could be organized in the constituencies, it would be irresistible. From the time of Cobden's death the Liberals held office for only about twelve years, and the Conservatives, under Disraeli, Salisbury, and Balfour, were in power for over twenty-five years before the great Liberal revival took place in 1906.

IV

The Effect of the Boer War

THE FIRST WORK to be written upon the principles of Liberalism came from the pen of Herbert Samuel, now Lord Samuel. "Liberalism, Its Principles and Proposals"²⁴ was published early in 1902, and Asquith wrote an introduction to it. The author told us that the purpose of it was to produce in a compact form the leading principles on which the action of the Liberal party was based. And he said: "A statement of this kind has not yet been attempted on behalf of Liberalism."

²⁴ London, Grant Richards, 1902.

In the introduction to this book, Asquith stated that liberty (in a political sense) was not only a negative but a positive conception. He then added: "To be really free, they [men] must be able to make the best use of faculty, opportunity, energy, life." He held that "in this fuller view of the true significance of Liberty we find the governing impulse in the later developments of Liberalism. . . ." Herbert Samuel, however, in the first chapter of his book, commits himself to the full Cobdenite doctrine. He says:

When we speak of Progress, we mean by progress the enlargement of this opportunity. When Liberals advocate Self-government, it is because Self-government is regarded as a means towards this end. When they raise the cry of Peace, Retrenchment and Reform, it is because peace, retrenchment and reform are held to be parts of the policy by which the State may fulfil this duty. . . .²⁵

We shall see to what extent the author of the introduction to the book held to these principles when he became Prime Minister and had full power to introduce basic economic reform.

What was the position of the party after the Boer War? It was estimated by official and unofficial committees investigating the conditions of the poor that one-third of the people were living on the poverty line. The slum conditions in the great towns were so shocking that the better-off middle class wondered at the patience of the dwellers in them. I know from direct experience what many districts in the East End of London were really like, but somehow there was an idea abroad that poverty was to be expected in that neighborhood. I was a member of a local committee in 1904, which investigated the conditions in some of the boroughs not far from the House of Commons and Westminster Abbey. One night we found eleven persons living in a small room in the cellar of a half-demolished house. In some of the areas that we visited,

²⁵ *Ibid.*, p. 4.

overcrowding was the rule. But the most amazing thing we observed at that time was that the mothers were educating their children in the art of begging. However, this story has been told in many works, and it is unnecessary here to go through it all again. Nothing worth speaking about had been done to relieve the poor, and what was called social reform had scarcely advanced since the time of the great split over Home Rule in 1884.

Therefore, the first duty of Liberals was to consider the question of involuntary poverty and the economic causes of it. This was the imperative of Liberal policy. But the Radicals had lost heart. They were dismayed at the Boer War, and they felt after the Khaki Election of 1900 that nothing was to be expected from Balfour's Government. Indeed, the position in which the party was placed seemed hopeless in 1902. In my many meetings at Liberal headquarters, encountering Herbert Gladstone, Robert Hudson, and Frank Barker, all I could gather from them was that the party had to be organized in the country before any great change could take place. No one seemed to be particularly hopeful of the future. And it was not until Mr. Chamberlain launched his proposals of colonial preference (protection) that Liberal headquarters had an opportunity to see what could be done in the constituencies.

It was strange how, in 1902, Joseph Chamberlain revived the party he had helped to destroy in 1884. His scheme of preference to the colonies acted like magic upon the Liberals in the counties and towns and brought the Radicals back into the fold, determined to fight protective tariffs in any shape or form. Then a miracle took place. At the by-elections seats that had been held by the Tories for generations were won by free-trade candidates. In the two years after Chamberlain gave his proposals to the country, the whole electoral

outlook for Liberalism changed, and wherever one went there was hope at last that great things might be done. I do not think there is recorded in the annals of any political party anywhere such an amazing change from hopelessness to confidence. And strong it was!

Such was the view taken by the chiefs of the party after the unprecedented series of Liberal victories gained at the by-elections. A year before the General Election of 1906 even the Tories sometimes admitted that they would be swept out of power for at least twenty years.

V

The Riot of Superficial Ideas

HOWEVER, THERE IS another side to this matter, which must be exposed if one is to understand clearly how Liberalism began to decay and lose its vitality. When I entered active politics in the year 1902, I soon realized that my ideas of Liberalism were held by comparatively few members and candidates. At the by-elections, which were frequent, I met perfectly sincere men who expended their energies upon a single social problem, such as temperance reform, sweat-shop reform, housing reform, educational reform, prison reform, Garden City schemes, and many of the other problems aggravated by evil economic conditions. Very seldom did I meet a man who was inclined to listen to the cause of most of these distressing matters. Nevertheless, the dominant of all the controversies of that time was that of colonial preference, advocated by Joseph Chamberlain. Here there was no difference of opinion. All Liberals were agreed that protection had to be fought and free trade in Great Britain maintained.

I was singularly well placed at that time to get in touch with the men of the many movements then being formed to use the Liberal party for their own purposes. During the winter, when I was not busily engaged at the Royal Opera,

I went occasionally to afternoon teas, lectures, and those strange discussion parties held at the houses of well-intentioned individuals who were affected with Socialist notions. It did not take me long to suspect that I was regarded as a curiosity—an old-fashioned one—because I had not moved with the times. Was I conscious of the sea of woe in the towns, the factories, and the slums? Questions about social problems were put to me by men who would run a mile rather than face the denizens of poverty they imagined they would assist. When some of these people learned that I had been through all of woeland, both in England and in America, they regarded me as something of a wet blanket. I noticed the ardor they had formerly put into their speeches and chats pale away, and in discussions some of the speakers would watch me with furtive eyes, anxious about the moment when I would challenge a statement.

If anybody who thinks he is a Liberal today wishes to know something of the chaos of thought that reigned in the Liberal, Fabian, and Socialist circles of that time, he cannot do better than read Philip Mairet's memoir on Orage,²⁶ the literary Prometheus of the period. For he, as editor of the *New Age*, was the magnet that drew around him the chief men of these movements to which I refer, and was by far the most fascinating figure in all the political strife that preceded the war.

Alfred Orage—a shackled genius himself—represented the intellectual turmoil. One night I asked him if he had found his direction. "Neilson," he replied, "I don't think I ever shall." How was it possible for him to discover himself in those days? Think of the men who contributed to the *New Age*! To mention only a few in the galaxy of writers, there were Shaw, Chesterton, Belloc, Wells, Havelock Ellis, Arnold Bennett, John Galsworthy; then there were also the Nietzscheans—J. M. Kennedy, Dr. Oscar Levy, and A. M. Ludovici.

²⁶ London, J. M. Dent and Sons, 1936.

Mairet says that Orage at that time remained Fabian on the whole. Yet, he was a profound student of Nietzsche.²⁷

After the sad experience of his association with Gurdjieff,²⁸ I saw him many times, and, whenever we spoke of the early days of the *New Age*, he seemed to believe that most of the strivings had been of no avail. But Orage found his direction at last. In a fine passage Mairet discloses the end of the quest:

Credo quia impossibile may sometimes be as much the saving grace of the intellectual as the mortal danger of the fool. "It would be saying too much to affirm," said Orage later, "that I resigned from the *New Age* and from active participation in social reform in order to find God. I only wish that my motives could be as clearly conscious as that would imply." But how could they, when his head had gone in search of his soul, like Orpheus for Eurydice, that both might be whole? It was at least a sure instinct of the spirit, for if wholeness be not God Himself, through wholeness alone can we know Him.²⁹

VI

Infiltration of the Fabians

WHAT, THEN, was to be expected of a party—if it were elected to office—whose reconception was conceived in such a turmoil of superficial ideas?

In the brief space allotted to an essay it is not possible to go deeply into the ramifications of the political thought of that time. However, there are several books—some of them memoirs—which supply the information that may be used in an extended work on the subject. The influence of Sidney and Beatrice Webb and their satellites undoubtedly was responsible for a great change in what was called "Liberal thought," and explains why it was that so many Fabians stood as Liberal candidates in the election of 1906. Not that these

²⁷ Two of his works were: "Nietzsche in Outline and Aphorism," London, T. N. Foulis; and "Nietzsche, The Dionysian Spirit of the Age," London, T. N. Foulis.

²⁸ For an interesting account of this extraordinary man, see "More Lives Than One," by Claude Bragdon, New York, Alfred A. Knopf, 1938, p. 321 *et seq.*

²⁹ *Op. cit.*, p. 90.

people understood the radical differences between the two creeds!

When these men were asked why they did not join the Independent Labor party headed by MacDonald and Snowden, they protested that they were Liberals but that a dash of Fabianism was required to deal with the immediate social problems. And although the free trade principles of Richard Cobden were enunciated from all Liberal platforms, I had "ma doots" about the sincerity of many candidates who were inclined to sneer at Cobden as a man of but a single idea.

So dishonest did the action of these Fabians appear to the real Radicals that in many constituencies men of the old school decided to abstain from voting. An estimate was made in 1905 of the number of Radicals standing for the General Election, and all that could be counted as reliable candidates were fifty-odd. For the one-reform men, such as town-planners, profit-sharers, total-abstainers, education- and slum-reformers, were not looked upon as safe for forcing the government to deal with the full Cobdenite policy of thorough economic reform.

Another strange change that had taken place and was most noticeable was that of the young parliamentary aspirants in the party who regarded *social* reform as something of a panacea for involuntary poverty. I spoke in many of the constituencies where these men stood as candidates; and from the local Liberals, in nearly every case, I heard complaints that their man was not a Radical. After a meeting one night, a blacksmith, pointing the finger of scorn at his candidate, said: "All he can offer is sops for saps, and we don't want sops!" Among all those young men I do not remember one who knew the full Cobdenite gospel. When I quoted Cobden's famous Derby speech, in which he demanded the taxation of land values³⁰ for revenue to enable the government

³⁰ Dec. 10, 1841.

to abolish the breakfast-table duties, the candidate after the meeting said to me, "I say, Neilson, that's a bit strong, isn't it?"

Still, it is only fair to say that from my experience, these young Liberal candidates were not a whit less superficial than the Fabians themselves. And, since during the past twelve years we have had the experience of seeing what can happen to a great party through the infiltration of Fabian ideas, it should be of interest to learn something of the intellectual caliber of the men who attempted to take possession of the Liberal party and in many ways undermined its power; for what happened in England then has happened here now. I do not think it possible to give a clearer account of the loose thinking and the indeterminate notions disseminated by the separate schools operating within the ambit of the Fabian society than that presented by Philip Mairet.³¹ His work is invaluable for a proper understanding of the riot in ideas that raged among the Fabians, the guild men, the Socialists—Christian and atheistic—and the sentimental Liberals.

VII

Exposing the Fallacy of Marxism

WHEN, IN 1904, I told Herbert Gladstone that the only way the party could survive would be by initiating a campaign against Socialism, he scorned the idea. At that time there were ten or a dozen Radicals standing as prospective candidates, who agreed with me. But the heads of the party, having little or no knowledge of what was taking place in Fabian circles, laughed at the notion that there was anything to fear from the Socialists.

When I became acquainted with Robert Leonard Outhwaite,³² who fought Joseph Chamberlain in West Birming-

³¹ *Op. cit.*

³² He became the Liberal member for Hanley in 1912.

ham in the General Election in 1906, I found a man who was fully qualified to assist me in looking deeply into the problem of how Fabianism (or Socialism) would effect a revival of Liberalism. Outhwaite had just returned from South Africa, after the war, and he had brought with him an abundance of literary by-products of Max Hirsch. He and Hirsch had worked together in Australia. These writings were largely examinations of the Fabian tracts. But what really served as the most destructive piece of criticism of the proposals and conceptions of Socialism (Fabianism) was Hirsch's work, "Democracy versus Socialism."³³ After mastering the analysis of Max Hirsch, I began the series of debates with Socialists that I carried on for about ten years. Not once in all that time did I meet a Socialist or a Fabian who gave me the impression that he had read *Das Kapital*.³⁴ "The Communist Manifesto"³⁵ and the Fabian tracts were about as far as any of my opponents had gone in the literature of Communism or Socialism.

The extraordinary thing about all this is that Outhwaite and I came to the conclusion that Marx, when he set to work on *Das Kapital*, did not know his subject. He certainly knew what was wrong, but he did not have the faintest conception of why it was wrong until he reached the chapter on "The Modern Theory of Colonization." Even then—after 841 pages—he did not realize that his first findings were false and that the early chapters were only worth burning. When he discovered that "the expropriation of the mass of the people from the soil forms the basis of the capitalist mode of production,"³⁶ he destroyed at a blow the fallacious theories with which he began his work. Moreover, Marx learned as he proceeded with his task, and in the third volume there are many

³³ London, Macmillan and Co.; New York, The Macmillan Company, 1901.

³⁴ Three volumes, Chicago, Charles H. Kerr & Company, 1932.

³⁵ By Karl Marx and Frederick Engels, Chicago, Charles H. Kerr & Company, no date.

³⁶ *Das Kapital*, Vol. I, p. 841.

references to the land question and the necessity of taking what he calls ground rent.

How strange it is that the world should be turned upside down by people who have been actuated in economics and politics by a man who did not realize what utter nonsense he had written in the early chapters of his book, even when he destroyed his own thesis and theory in the later portions of it!

VIII

Sentimental Reform and Legislative Chaos

WHAT CHANCE was there to formulate a policy for the Liberal party that would carry on the full Cobdenite tradition? And how is it to be explained that although the burning question of the hour was to fight protective tariffs, the men who called themselves free traders took no trouble to learn the fundamental of free trade as laid down by Cobden himself? In his last public speech he said:

If I were five-and-twenty or thirty instead of, unhappily, twice that number of years, I would take Adam Smith in hand . . . and I would have a League for Free Trade in Land, just as we had a League for Free Trade in Corn. . . . The men who will do that will have done for England probably more than we have been able to do by making Free Trade in Corn.³⁷

On another occasion he stated:

I warn [the landlords] against ripping up the subject of taxation. If they want another League at the death of this one [the Anti-Corn Law League], then let them force the middle and industrious classes to understand how they have been cheated, robbed and bamboozled upon the subject of taxation.³⁸

There was no doubt about the value of the mission handed on by Cobden to the Liberal forces of the country, but the Radicals were the only ones who knew it.

A word must be said here about the deleterious influence of what were called "the sentimental Liberals." They seemed

³⁷ At Rochdale, Nov. 23, 1864.

³⁸ In London, Dec. 17, 1845.

to be the lineal descendants of the Christian Socialists of Kingsley and Maurice. In some respects they were a more curious body within the party than the Fabians. There was not a man among them who was not perfectly sincere, but they were all utterly devoid of economic knowledge. They seemed to be guided by the notion that the woe was so deep and wide that nothing could be done but to try to ease it by giving doles. They were all for milk for the children, medicines for the sick, better dwellings for the slummers, Garden Cities for thrifty working men. Indeed, there seemed to be no end to the list of measures they could invent for alleviating—only alleviating—the distress. That they were indignant and shocked at the evil condition no one could doubt, but they completely lost sight of the cause of the troubles and did nothing to help the Radicals get to the root of the problem. They added to the transitory burdens of legislation by introducing measures which, when put into practice, made things worse.

Those of us who saw Liberalism decay in the last four years before World War I realize how it was all brought about, and the results of the great efforts which made the revival in 1906 one of the finest achievements that had ever taken place in British politics were dissipated before our eyes. Only one conclusion could be arrived at: Liberalism was destroyed from within itself by alien forces that had used it only for their own purposes.

How strange that the great revival after the Boer War should peter out so soon! A brief ten or twelve years covered the whole of that period. It is true, however, that, when Sir Henry Campbell-Bannerman was swept into power in 1906 with the greatest majority a Liberal Prime Minister had ever received, the election had been fought upon an issue of defense. The attack of the protectionists had failed, and free

trade was to be maintained. But Liberalism in nearly all its essentials was a creed of defiance. Its purpose was to attack the abuses the people suffered and to demand that the old law should be reaffirmed and reestablished.

The program which was placed before the country by Sir Henry Campbell-Bannerman certainly called for the amelioration of many wrongs. But these pledges were of secondary importance in the struggle to save the untaxed loaf for the people. Yet, the multifarious reforms in the program, after the election, suddenly became the burning parliamentary questions of the sessions. The Irish Party, led by John Redmond, was there to obtain Home Rule for Ireland. The temperance reformers of various schools were there to force the government to bring in legislation against the licensing laws. The town-planners came into the arena with their blueprints of Utopian schemes. The daylight-savers hoped to add an hour of sunlight to the lives of the workers. The municipal reformers, armed with many bills which aimed to correct the abuses from which the urban dweller suffered, clamored for time to introduce them. John Burns said on one occasion, when as head of the Local Government Board he was pressed by a deputation of urban town councillors to deal with some local matter, that he did not think he could obtain time from the government to introduce such a measure because each Liberal member had a pet project of his own. No better commentary could be made upon the chaos of superficial reform into which the House plunged after the death of Sir Henry.

It was not long after Asquith became Prime Minister that Lloyd George was taken by Charles Henry for a motor ride through Germany. He returned with the German model of insurance against sickness and, although it has been claimed that Winston Churchill was the author of the Labor Bureau

legislation, I know for a fact that Mr. Lloyd George had learned of that scheme while he was away on his motor trip. Therefore, it must be understood that most of the parliamentary time, for the six years under Asquith (before the war began), was spent on measures which in no way dealt with the fundamental problems that Liberalism, in the years past, had determined to attack. Here it should be mentioned that in the short two years of Sir Henry Campbell-Bannerman's tenure as Prime Minister, the question of the Union of South Africa absorbed much time and that the Scottish Land Values Bill was the only important measure of economic reform Parliament dealt with in that period. Of course, the usual bills for finance and the services, which came up every session, always took a great slice of parliamentary time. All this deeply aggravated the impatience of those men for whose pet schemes the government could give little or no attention. And this impatience became most noticeable in the country after Asquith became Prime Minister.

At the by-elections majorities were reduced and seats were lost. One reason for the great dissatisfaction that was spreading was the Licensing Bill, which was introduced in 1908. This seemed to overshadow every other problem. Fighting a by-election in the spring of that year, I was amazed to discover that fairly large sections of my audiences did not desire to hear about any other legislative matter except the question of whether their pots of beer would be forthcoming.

The introduction of the Licensing Bill was one of the greatest mistakes of the Asquith Government. One of the Whips told me that a canvas taken by them showed not more than forty members in the party who were keen about the bill.

IX

Fundamental Reform—Too Late

THE FOREGOING SKETCH of the legislative chaos is necessary for the purpose of showing how an overloaded program can

go far towards defeating a great parliamentary majority. And it must be observed that the Liberal party had had no such experience as this in its history. Neither Gladstone nor Rosebery had been hampered in that way. A good story is told about John Morley taking the Newcastle program to Gladstone. In handing it to the Prime Minister, he said, "This, sir, is the list of the questions for you to consider." Gladstone did not trouble to put his glasses on. He unfolded the scroll, ran his eye from top to bottom, and noted the number of different reforms on the list, then sighed and said to Morley, "Is this all, John?" At that time long lists of reforms were made up and deputations presented them to Prime Ministers and cabinet members, but the reformers must have had a better sense of parliamentary time than their heirs, for no grave dissatisfaction was expressed if the legislative suggestions were overlooked or challenged.

The opposition was never bothered with programs. Its cabinet, or its chief, when in opposition, did the thinking for the party. The docility of its back-benchers was in strange contrast to the impatience of those who sat behind the Liberal Treasury Bench.

How any party could survive the avalanche of superficial notions of reform that struck Liberalism in those years puzzled me mightily! After the General Election of 1906, it soon became evident that the chief business of the party was to remain in power, each member hoping his pet measure would some time be fathered by the government. Within two or three years the members who were associated with the Labor Representation Committee began to shed their Liberal garments and assume the cassock of Marx.

This gave me the opportunity I had been looking for of presenting the case of radical economic reform as an alternative to Socialism. For years I carried on the campaign in the

constituencies, and in the early days of it, to my amazement I found that the drift from Liberalism was far beyond what I anticipated. For example, the young men in the miners' lodges were going over to Socialism by the scores. In the towns, the Leagues of Young Liberals checked for a time the spread of socialistic nostrums. But in the great mill districts of Yorkshire and Lancashire, Marx was winning adherents at every by-election. Then, in the summer of 1907, in a three-cornered fight, Victor Grayson was elected as an avowed Socialist. The effect upon the Liberal leaders in London was so shocking that it forced the cabinet and the Whips to consider schemes for checking the rot. Hence, the introduction of sickness insurance, old-age pensions, and many such superficial ameliorative measures.

But when it was too late—in 1909—the Land Values Budget was introduced as a corrective of the blunders that had been made since the death of Sir Henry Campbell-Bannerman. Had the Land Values Bill for England and Wales been introduced immediately after the House of Lords rejected the Scottish Land Values Bill, something positive might have been done. To show what the débâcle meant, it is only necessary to quote the figures of the majorities. In 1906 Campbell-Bannerman had been returned with a Liberal-Labor majority of 354. In 1910 that majority had sunk to 124. (The figures include the Irish Nationalist Party.) Here it is necessary to point out that, when the Liberal-Imperialists set up the inner cabinet, after Asquith became Prime Minister, there was never the same confidence in the constituencies that was manifest when Sir Henry Campbell-Bannerman was leader. Asquith, Grey, and Haldane were always suspected by the old Radicals who had stood firm during the Boer War. The split then brought about by Rosebery in forming the Liberal League was never healed, and only such

a grave question as that of maintaining free trade against Chamberlain's policy of protection brought about a temporary tolerance of the Liberal Leaguers. This breach went deeper than any of the Whips knew.

I remember dining with the Master of Elibank one night when he was Chief Whip. We had met to discuss a campaign on land values. He did not see his way to persuade the government to participate in it, but he gave it his personal blessing and hoped for the best. Just as I was leaving him, he said to me very gravely, "Neilson, this is the first time I have been conscious that Liberalism cannot exist without the Radicals."

X

A Confusion of Charity with Justice

THERE WERE TWO WORDS linked together—*social justice*—which I consider did more to vitiate the principles of Liberalism expounded by Cobden than any others in the vocabulary of party politics. The use to which they were put became the abracadabra of Fabian-Liberal platforms. The comic part of this was that the Socialists and the Fabians within the party relied upon them for the chief feature of their perorations. When it was pointed out that there was no justice in the principles and conceptions of Socialism, that they had to be abandoned because of the distributive proposals, the Fabians and the superficial Liberals were grieved beyond measure. They looked as if they had been deprived of some precious keepsake. When, further, it was found that there was no justice in many of the recommendations they made, that everything was in the nature of charity, and not justice, they looked upon their opponents as brutal iconoclasts who had smashed a holy image.

Therefore, in the Land Values Campaign that began in the winter of 1907, these two words "*social justice*" became a text

for speakers from hundreds of platforms. They were shown to mean nothing in the way of justice. Every reform suggested by those who would merely ameliorate the sufferings of the poor was nothing more than a modicum of charity and, if carried into effect, would perhaps make things worse than they were before. It was just an aggravation of the old system maintained in many of the villages by the squire and his lady—the promise of a yard or two of red flannel for a petticoat and a bit of tobacco for the old man's pipe or, as Victor Hugo would say, an attempt to buy a penn'orth of heaven. The people themselves, when it was put frankly before them, saw the trick and realized it was just a sop to them and a conscience-soothing sedative for the giver.

The amazing rapidity with which the old forces in the constituencies gathered in that Land Values Campaign, when everything was against the Liberal record, proved to the Whips that the time had come when Asquith and Lloyd George dared no longer put off economic reform. The resolutions from the meetings, urging the government to tax land values in the Budget of 1909, poured in to such an extent that the people at Downing Street admitted they could not possibly deal with the quantity. This campaign saved the government from defeat the following year. However, to the dismay of the men who had toiled to create this revival, the bill was mangled in the House of Commons, and Lloyd George proved incompetent to carry it as it was introduced. Then the House of Lords threw the puny measure out, and this blunder was responsible for the introduction of the Parliament Bill the following year.

XI

Imperialism Crushes the Great Revival

THE STORY of the next four years is well known. The great revival was crushed by the load of disappointment, for the

Land Values Bill became a thing of shreds and patches, twisted and tangled out of all shape, unrecognizable, abortive, and disowned by its creators.

Liberalism was not destroyed by an attack delivered from its old opponents. I cannot remember an argument of the Tories, or even a challenge of the Conservative protectionists, that it was not at all times ready to meet with confidence and vigor.

It had weathered the storms of the eighties when the split over Home Rule seemed to shatter the party, and it survived the bitter years from 1895 to 1905 during which the Conservatives held power and the struggle with the Boers in South Africa brought about another split in the party. The shocks suffered for the greater part of twenty years were sufficient to paralyze the aspirations of any democratic force, but there was in it the principles of a long tradition which maintained it in all periods of distress. The blow that destroyed it was struck from within.

Moreover, when in 1911, after the Agadir crisis, the government was committed to a war policy, another destructive blow fell upon the party. The Radicals accused the Liberal Leaguers—Asquith, Grey, and Haldane—of playing the game of the war-like Tories. The prospect of war brought disunion, and the genuine Liberals protested in vain against the foreign policy of the imperialists.

After the declaration of war in 1914, I was called to the office of the Chief Liberal Whip, Percy Illingworth. I found him in tears. He was so shaken that for a minute he could not find speech. Then he muttered, "Liberalism is dead."

Requiescat in pace!

Chicago

The Outlook for Free Trade

By GLENN E. HOOVER

THE AVERAGE AMERICAN of today probably knows less about foreign trade than did his more literate ancestors. Whether or not the Congress, by "protective" tariffs, should restrict our freedom to buy foreign goods was, for many generations, a question of general interest. However, for some years, both our major political parties have agreed that import duties should be levied at rates which would "equalize the costs of production at home and abroad." By agreeing on this idiotic and unworkable formula, the tariff question has been "taken out of politics" and the voters have concentrated on the current trivia. With important issues removed from political controversy, the voters have considered such questions as the significance of Al Smith's brown derby, Wendell Willkie's Indiana accent, and the youth and stature of Governor Dewey.

Serious thinking about the tariff is also hampered by our ignorance of the prevailing rates of import duties. Now that many of the rates fixed by the Congress have been altered by some thirty Reciprocal Trade Agreements, the average citizen knows almost nothing of them, and if he is ever disposed to think at all about the tariff, the difficulty of securing the pertinent data will promptly discourage him. Those of us who have supported the Trade Agreements Program should be the first to admit that the fixing of import duties by executive agreement has put our tariff schedules beyond the ken of all but those who have a selfish interest in them.

The war has obviously added to the confusion. Much of what has happened to our foreign trade since Pearl Harbor will remain a military secret until peace is restored. We

know only that the nature and volume of our imports and exports are determined by our military needs—real or fancied—and that goods move in directions other than those determined by their relative costs of production in different lands.

Military requirements not only determine the present character of the world's trade, but, unless peace can be assured, will dominate it in the future. Nations that must face the prospect of war will be reluctant to rely on imports of food or other strategic materials, and in a general struggle for self-sufficiency, international trade will decline to a negligible trickle. No nation can formulate a rational policy concerning either its trade or its merchant marine until it sees how effectively we may remove from the world the fear of military aggression.

If, however, we assume that the post-war world is not to be an armed camp, a trade policy could be formulated which need not be "cleared" with the General Staff. We could insist that such a program make economic, rather than military, sense. However, before such a program can be adopted, the American people must be convinced of the beneficence of freedom in their economic life as in their political life. Those who, for their own advantage, would obstruct the free flow of international trade, must be exposed and pilloried; those who erroneously believe that such obstruction is in the national interest, must be educated. To expose the selfish is seldom pleasant, and to educate the masses is never easy, but both tasks must be performed simultaneously. We can never have a rational foreign trade policy until the fallacies of protection are exposed and extirpated.

I

Illogical Arguments for Free Trade

THE INTELLIGENCE of the readers of this JOURNAL makes it unnecessary to refute the gross errors of the protectionists.

It seems preferable to examine the errors of those who are opposed to governmental restriction of international trade—but for the wrong reasons. For example, it is said that by limiting imports we deprive ourselves of the advantage of increased exports. Those who make this argument unconsciously agree with the protectionists that a nation benefits exclusively or chiefly from its exports. The truth is, of course, that imports are the final justification of international trade, and exports are merely the sacrifice we must make to secure them. Nations, like individuals, derive their enjoyment not from the things they sell, but from the things they buy, and those who argue for the freedom of international trade should never forget it.

Some "liberals," just well enough informed to know that protectionism lacks intellectual respectability, contend that only by increasing our exports can we maintain full employment when the war ends. Free trade for them is a make-work device. To rest the case for free trade on this broken reed is to invite disaster. For example, the true justification for importing coffee is not that Americans are thereby given jobs producing the things which the Brazilians can buy, but rather that by importing our coffee we get it with less labor than if we grew it in hot-houses.

International trade, like domestic trade, is a labor-saving device, and to defend it on the ground that it "makes work" is to propagate the most pernicious error of our time. Work, for the economist, is never an end in itself, but only a means, and to secure a maximum of goods and services with a minimum of effort is the goal of economic science. Free trade must be urged on the ground that it saves labor while protection wastes it.

Another erroneous belief is that free trade is desirable only between countries with comparable living standards. For instance, the Universities Committee On Post-War Inter-

national Problems suggests that goods should be produced in those countries where they can be produced at lowest cost "provided that economy in production costs is not obtained through a subnormal standard of living."¹ Without attempting to define "a subnormal standard of living" it may be agreed that such a standard is found in India. Are we then to conclude that if we make it more difficult for Americans to buy goods from India we shall be rendering some service to the Indian people? On the contrary, it seems obvious that by excluding Indian goods from our market we should make the standard of living there even more "subnormal."

And as for the American people, will they be better off if, through tariffs, we make it more difficult for them to buy low cost Indian goods? It must be obvious that their interests will be served by permitting them to buy where prices are lowest, whether those low prices are to be found in such low wage countries as India or China, or such relatively high wage countries as Canada or Great Britain. In short, the advantages of free trade apply to trade with all countries, whatever their standard of living, and it is particularly cruel to tell the low wage countries that we must discourage purchases from them because their wages are low. Such a policy can result only in lowering their wages further still. The Universities Committee, in its defense of free trade, was possibly fearful of protectionist and trade union criticism, and its fears induced it to err.

More confused thinking is evident in the demand that the United States should lower its protective duties as a contribution to world peace and prosperity. Free trade is extolled as a sacrifice which a powerful and generous nation should be willing to make in the interest of other peoples. Such arguments appeal to our most generous sentiments, but they only

¹ *International Conciliation*, No. 405 (Nov., 1944), p. 671.

obscure the merits of free trade. In the long run, economic freedom will be better served by hard heads than by soft hearts. Tariff barriers have long since supplanted pirates and uncharted shoals as barriers to international trade, and to remove an import duty has no more to do with generosity than the removal of some wreck which is a menace to navigation. The removal of either can be, and should be, defended on purely selfish grounds.

Because free trade is in the interest of every nation that practices it, our State Department, when negotiating its Reciprocal Trade Treaties, probably erred in referring continually to our tariff reductions as "concessions." As Walter Lippmann observed, when the treaty with France was announced, the "concessions made to France" consisted of permitting Americans to buy for less the things they desired to import from France, while France made a similar "concession" in permitting her citizens to buy American exports at lower prices. While Lippmann approved the treaty, he regretted that our economic ignorance was so profound that even when our government acts wisely it must give foolish reasons for its conduct. When the advantages of free trade are fully comprehended no one will argue that our tariff reductions are to be justified on the ground that they enable us to obtain reductions in foreign tariffs. A reduction of a protective duty benefits the nation which makes the reduction, and on that ground it should be defended if we are to make much progress in our economic thinking.

Nor should tariff reductions be employed for bargaining purposes. Those who converted the British people to free trade—an educational achievement without parallel in history—never argued for the reduction of British tariffs if foreign nations would agree to make similar "concessions." In a letter reviewing their successful campaign, Cobden wrote:

We came to the conclusion that the less we attempted to persuade foreigners to adopt our trade principles, the better . . . we avowed our total indifference whether other nations became free-traders or not; but we should abolish Protection for our own selves, and leave other countries to take whatever course they liked best.²

Although Cobden and his co-workers won their fight for free trade by appealing to the economic interest of the British people, they never subscribed to the vulgar notion—later popularized by protectionists—that while free trade might be good for Britain, it would be harmful to those nations which were less advanced industrially. No British statesman was ever a firmer friend of France than was Richard Cobden, and he sincerely hoped that the French free traders might win such a victory as had been won in Britain. In a letter to a French free trader (1846), he suggests how the campaign should be fought, and his suggestions are still worthy of every consideration. After discussing the French tariffs of the time, Cobden said:

Then I throw my mantle of an agitator over your shoulders, and bid you to commence the good work. Do not mix up any other question with it. Urge boldly forward the principle of Free Trade—denounce the very idea of Protection. It is a fraud and a *swindle*, and you must not compromise with it a moment. . . . Tell them (French government and people) "we are willing to be taxed for the public revenue—take all we possess if it is necessary for the good of the State—burn our houses over our heads if that be required for the interests of France. But not one sou will we pay for the benefit of particular men, or classes of men." That is the tone to take to rouse public feeling and sympathy. Take no lower tone.³

Others who oppose import duties apparently believe that the import duties collected are the measure of the loss which a nation suffers because of the duties. Import duties obviously result in higher prices to consumers, but if the price increase goes to the Treasury, there is no loss to the nation,

² J. A. Hobson, "Richard Cobden," New York, Henry Holt, 1919, p. 41.

³ *Ibid.*, p. 45.

however inequitable the import tax may be. If an import duty is levied for revenue only, such as the British duty on tea, all of the price increase goes to the British Treasury, and the tea duty is but a method of forcing the British tea drinkers to contribute to the support of their government. If tea were admitted free of duty, the revenue now collected from the tea drinkers would have to be collected in some other way. The repeal of the duty on tea therefore, would not relieve Britain of a burden, but would only alter the incidence of British taxes.

When, however, tariffs are levied to raise the price of a domestic product—our sugar tariff for example—the higher price paid by consumers for the domestic sugar goes, not to our Treasury, but to the high cost American growers. What the consumers' pay, indirectly, to the Treasury as duty on imported sugar does not measure the loss which our nation suffers from imports on sugar. The real loss is measured by the increased prices paid by consumers to domestic producers.

But here too we must keep in mind that, for the nation, there is no "loss" of money. The real loss consists of a decrease in the efficiency of our labor. By exporting more of those goods of which we are the low cost producer, and importing sugar from the low cost foreign producers, we would get our sugar with less labor. That is the real advantage to be gained by the repeal of all customs duties which are protectionist in character.

It is frequently said that our protective import duties have little effect on the volume of our foreign trade because the greater share of our imports are already on the free list. Statistical fakirs even divide the total value of our imports by the total duties paid and prove—to their satisfaction—that our import duties are among the lowest in the world. The obvious answer to all this is that our imports are largely restricted to goods which enter free of duty because our

rates on dutiable imports are so high that only a trickle can come in over the tariff wall. If we put our protective rates only a little higher perhaps *no* dutiable imports could enter. Protectionists might then insist that since all goods which entered the United States were admitted free of duty, our tariffs were not restrictive.

The effect of an import duty on a given commodity is better measured by the quantity excluded rather than by the quantity admitted. The fact that no goods may be admitted subject to a given rate does not prove that rate to be ineffective. On the contrary, the rate may be high enough to keep out all imports, which of course is the highest "protection" which can be given domestic producers.

The campaign for the removal of trade barriers would be greatly facilitated if ways could be found to make the public aware of the effect of import duties on retail prices. The following table gives some idea of the contributions which American consumers make to the high cost American producers.

| <i>Commodity</i> | <i>Average Rate of Duty (1939)</i> |
|-------------------------|--|
| Sugar | 56% |
| Woolens | 69 |
| Meat Products | 34 |
| Dairy Products | 32 |
| Clocks & Watches | 57 |
| Glass & Glassware | 62 |
| Cotton lace | 63 |
| Chinaware | 77 |
| Copper | 50 |

(Adapted from *Fortune*, Sept. 1944, p. 159)

Perhaps some future historian can explain why, for instance, the people of California insisted that food be exempted from their 3% sales tax and yet meekly accepted

what was in effect a 56% federal tax on sugar and a 34% tax on meat. It would seem that my fellow Californians are either less rational than is generally believed, or that they were ignorant of the extent to which tariffs increased retail prices. The assumption most favorable to them is that they did not know how much our tariffs raised the price of food, and such ignorance is probably as widespread in the other states of the Union.

II

The Uncertainties Which Lie Ahead

THE FUTURE OF INTERNATIONAL TRADE is particularly uncertain because it is impossible to foresee the extent to which States, or State agencies, will engage in trade in the post-war era. Although thus far the Soviet Union is the only country in which all foreign trade is conducted by a State monopoly, there is undoubtedly a trend toward direct State participation in the business of exporting and importing. Those States which abstain from direct trading often determine the volume of permissible exports or imports of particular commodities.

For instance, under the International Wheat Agreements of June 1942, the United States, together with other wheat exporting countries, agreed to restrict its annual exportation of wheat within a certain quota. Similar agreements are often proposed for other farm products and raw materials. Although nominally made to assure "orderly marketing, etc.," such agreements almost inevitably operate to maintain prices above the competitive level. By reserving a share of the export market to nations whose costs of production are relatively high, they furnish an incentive for the high cost producers to continue in production, and thus prevent the optimum utilization of the world's resources.

If, in the post-war era, the various political States expand their present programs for the fixing of export quotas, the

world economy will be demoralized. Not only will the nations concerned be poorer for their folly, but the disputes which will inevitably arise when governments act as traders will reduce the hopes of world peace to the faintest glimmer. When we recall how our "sanitary" embargo on Argentinian beef has embittered our relations with that republic, we can imagine what might result if Washington were to refuse admission to exports from, say, the Soviet Union, because no agreement could be reached between our respective governmental agencies. Any program for the expansion of governmental controls over international trade should be logically accompanied by an increase in our armed forces.

The fact that, thus far, the control of international trade by the Soviet government has aroused little more than the unjustified fear of Soviet "dumping," should not make us too complacent. The Soviet system of State trading works well enough so long as other nations do not employ the same methods. Before the present war, if the Soviet trading agency wished to buy products from the United States, it had only to pay the prices prevailing in our domestic markets. And if it wished to sell goods in this country it had only to offer them at prices which were attractive to our buyers. If the prices in each case had been matters for governmental agreement—or disagreement—our commercial relations with the Soviet Union might have completely broken down.⁴

The payment of subsidies is another method by which governments may distort the world's trade and cause plenty of economic mischief. Although subsidies are usually paid to encourage exports and thereby they increase the total volume of world trade, they produce all the evils which result from the protective system. The volume of international trade which will most benefit mankind is that

⁴ For a more detailed consideration of the dangers of State trading, see Jacob Viner, "International Relations Between State-Controlled National Economies" in *The American Economic Review*, Vol. XXXIV, No. 1, Part 2, Supplement (March, 1944), pp. 315-29.

volume which would exist in the absence of governmental interference. The artificial stimulation of exports results in the uneconomical use of labor and capital, just as does the governmental restriction of imports.

The governmental payment of export subsidies is, of course, "dumping" in its most flagrant form. Protectionists, in the lands where the goods are "dumped," have been particularly hostile to this type of imports. Starting with the assumption that imports should be discouraged, protectionists naturally resent any action by foreign governments which tends to increase them. The truth is that if the receiving country could be assured that the exporting country would continue to pay the export bounties, the receiving country would benefit by the fact that its imports could be obtained at an artificially low price.

However, protectionist errors have been so prevalent in recent times that practically all peoples—for the wrong reasons—condemn the payment of export subsidies by foreign governments. At the same time, they frequently insist that their own government—preferably in secret—should subsidize the exportation of "surplus" farm products, and the operation of ships and planes engaged in international trade.

The United States has long been one of the most unctuous critics of "dumping." Our Congress has passed a whole series of laws designed to prevent the dumping of foreign goods in our domestic markets and our leaders have never lacked words or zeal in their condemnation of this practice. Dumping is, in fact, a practice of such ill repute that many of our citizens will be shocked if they ever learn that a set of hardened hypocrites in Washington have for years been "dumping" American flour in foreign markets, by paying subsidies for the exportation of it.

Perhaps because such governmental hypocrisy has thus far gone unchallenged, it has recently been announced that the

practice of dumping will be extended to wheat, cotton, and corn. Having established "political prices" for these commodities, so high that they cannot be sold in the world market, it seems that the "surplus" must be either dumped abroad or destroyed. Neither horn of this dilemma is very attractive, but the planners who have trod so far the path of folly apparently believe that it is better that the United States should be branded as a hypocrite than that the politically created surpluses of wheat, cotton and corn should be ostentatiously burned. The smoke from such a bonfire might get in the voters' eyes!

The payment of direct or indirect subsidies to the operators of merchant ships is defended by all the bad logic in the protectionist arsenal, plus some special ones of unaccustomed absurdity. A national-flag fleet of merchant ships is sometimes compared to the delivery wagons of retail firms, and alleged to facilitate the exportation of our commodities. Such subsidies, in fact, restrict our exports because insofar as our subsidized merchant marine takes business away from foreign fleets, it makes it impossible for foreigners to earn the dollars with which to buy our goods. In time of peace foreign shipping firms compete so keenly for the privilege of carrying American exports that there is no economic justification whatever for a subsidized merchant marine.⁵

The plain truth about shipping is that the United States cannot compete with foreign countries either in the construction of ships or their operation. If our government withdrew its awkward hands from our economy we would devote our labor and capital to the production of those goods and the performance of those services of which we were the low cost producers. But Washington's adherence to the free enterprise system has never been strong enough to resist the

⁵ For an impartial and detailed treatment of our country's rôle in world shipping, see Dr. Clair Wilcox, "Merchant Shipping," *Fortune* (Dec., 1944), pp. 165 *et seq.*

demands of special interests for whom the borrowed money in our Treasury has a peculiar fascination. Lip service goes to the free enterprise system, but the taxpayers' money goes to the subsidy-hungry pressure groups.

Although it is obvious that our merchant marine cannot operate without subsidies, it is equally true that open and frank subsidies are in ill repute. Our shipping companies meet this dilemma with a resort to euphemisms and verbal obfuscations which show little regard for intellectual honesty. Their propaganda, which appears in the form of advertisements in the leading periodicals, never mentions the word "subsidy." In their propaganda-advertisements for August, 1944, which appeared in *Harper's*, *The Atlantic* and other periodicals, the Merchant Marine Act of 1936, which provides for subsidy payments, is called by American Export Lines, "The Magna Charta of the U. S. Merchant Marine." In the same issue, United States Lines refers to the Act of 1936 as "The Bill of Rights" of our merchant marine.

The fraudulent resort to these historical allusions by these two companies in the same month raises the presumption that their propaganda is fabricated at a single source. Anyhow, whether Magna Charta or Bill of Rights, the present law means Treasury hand-outs to our shipping firms, munificent salaries to shipping executives, and profitable advertising for the periodicals which presumably influence public opinion.

III

Strategy for a New Crusade

THE TIMID AND INDIRECT ATTACKS thus far made against both subsidies and protective duties have failed. They even lacked educational value, and were often merely ludicrous. For example, every year when Foreign Trade Week rolls around, educators in the port areas are urged to take their students on a tour of the waterfront, that they may see the

imports and the exports, and perhaps learn to recognize the foreign flags which ornament our harbors. Presumably this juvenile, circuitous approach is designed to make our people aware of the advantages of foreign trade, and the need for an expansion of it. However, the time could be better employed in considering the trade barriers that have been erected by the world's governments, which have consistently vied with each other in the practice of economic folly.

The American free trader's unwillingness to meet the protectionists head-on is largely responsible for our confusion. We have pecked away at the tariff wall, all the time declaring that it was a good wall, but a little uneven in spots, and needed some rubbing down. The results of this intellectual shilly-shallying have been deplorable. Economic freedom is no back-street wench to be smuggled in by a secret door. Freedom of international trade is an essential element of the free enterprise system, and our business leaders must learn that the free enterprise system cannot continue unless freedom is granted to the world's trade.

The timidity of our free traders also shows itself when they urge the reduction of certain tariffs rather than abandonment of the entire protective system. There is something to be said for the gradual abolition of tariffs, but the free trader's ultimate purpose should never be left in doubt. If, for example, we are opposed to a tariff on sugar, it is likely that we could secure its abolition as easily as we could its reduction. Moreover, by arguing for a reduction instead of abolition, we seem to imply that a certain amount of protection is in the public interest. When the public debate takes the form of arguments over the *degree* of protection which should be afforded, the debate has lost its educational value. To dispel the idea that there is some degree of protection which economic science supports, is a first duty of the free trader.

A leader in the campaign to bring the science of economics

down from the ivory tower and into the arena of public controversy is Dr. H. C. Simons of the University of Chicago. His stirring article in *Fortune* (Sept., 1944) was entitled "The U. S. Holds The Cards" and the gist of it was accurately indicated in its sub-title, *viz.*, "... But if We Want to Play the Free Enterprise Game at Home We Had Better Be Serious About Reestablishing Free Trade with the Rest of the World." In this article there is none of the customary academic mincing of words. Defying the tradition that scholars should never double as prophets, he confidently predicts the doom of the restrictive system:

American protectionism is simply done for. It is *the* utterly unrealistic prescription for the future. . . . The real issue concerns a more extreme and epochal choice, namely, a choice between free external trade and national, collectivist monopolies of foreign trade.⁶

When a leading professional economist issues such a call to battle, protectionists must know that the time for decision draws near.

The significant thing about the crusade now developing is that it is no mere movement for "tariff reform," but a movement which would eradicate the protective system, root and branch. It is impossible to arouse much enthusiasm for a campaign to lower the duties on a few imports. As Henry George wisely observed when discussing free trade many decades ago,

When told that they must beware of moving too quickly, people are not likely to move at all. Such advocacy is not of the sort that can compel discussion, awaken thought, and press forward a great cause against powerful opposition.⁷

The present campaign for free trade may meet with only partial success, or possibly complete failure. Nevertheless, every happy warrior should be glad that the engagement now

⁶ *Loc. cit.*

⁷ "Protection or Free Trade" (1911 reprint), p. 314.

beginning is to be fought over fundamental issues. The days of appeasement are ended. The friends of commercial freedom may find victory or defeat, but they will accept no compromise.

There are now signs in the heavens which suggest that our generation may witness the final assault on the protectionist fallacies. Our more intelligent business leaders increasingly realize that pleas for the free enterprise system which are alternated with demands for governmental "protection" are too illogical for serious consideration. When the president of the United States Chamber of Commerce openly champions the lowering of our tariff barriers—that's news. And when professorial mice begin to talk back to the fat, protected cats, that's bigger news!

There is a present trend toward a new faith in freedom, a freedom that will extend to trade as well as to thought, to commerce as well as to conscience. There is a reaction to inept governmental meddling, and the friends of free trade should gird themselves for the final battle.

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The Squatter's Hut at Walden

Reflections on the Centenary of a New England Homestead

By BENSON Y. LANDIS

I

IN THE SPRING of 1845, Henry David Thoreau started to build a hut with his own hands on the shores of Walden Pond, near Concord, Massachusetts. The cost of the materials he computed at \$28.12½. Included were one thousand old bricks, for which \$4.00 was paid. Two casks of lime cost \$2.40. "That was high," he thought. The sum for transportation was \$1.40. He adds: "I carried a good part on my back."

Thus Thoreau had, he said, "a tight-shingled and plastered house, ten feet wide by fifteen long, and eight-feet posts, with a garret and a closet, a large window on each side, two trap doors, one door at the end, and a brick fireplace opposite." There was also "a small wood-shed adjoining, made chiefly of the stuff which was left after building the house." Thoreau frankly labeled himself a squatter. In the list of materials purchased he did not include timber, stone or sand, but added a note to the effect that he claimed these "by squatter's right."

The tract on which Thoreau squatted contained about eleven acres, mostly pine and hickory trees. The land had once sold for \$8.80 an acre. He wrote: "Wishing to earn ten or twelve dollars by some honest and agreeable method, in order to meet my unusual expenses, I planted about two acres and a half of light and sandy soil . . . with beans, but also a small part with potatoes, corn, peas and turnips." He salvaged several cords of rotted stumps, which had around

them "small circles of virgin mould, easily distinguishable through the summer by the greater luxuriance of the beans there." The produce sold, over and above what he used, was valued at \$23.44; the "outgoes" for production were \$14.72½; the result \$8.71½. That, he declared, comparatively speaking, was better "than any farmer in Concord did that year." The next year he did still better, because he lived more simply.

Thoreau claimed he had "found that the student who wishes for a shelter can obtain one for a life time at an expense not greater than the rent which he now pays annually." Then follows one of his customarily uncomplimentary references to the famous institution at Cambridge. It then charged \$30.00 a year for "the mere rent of a student's room"; even though "the corporation had the advantage of building thirty-two side by side and under one roof, and the occupant suffers the inconvenience of many and noisy neighbors. . . ."

Without any advance planning, Thoreau moved in triumphantly on July 4, 1845. He records in his book "Walden" the expense accounts for the first eight months. He earned by surveying, carpentry and day labor in the village, \$13.34. He said he had as many trades as he had fingers. The expense of his purchased food for the first eight months amounted to \$8.74. His record says: "Yes, I did eat \$8.74, all told; but I should not thus unblushingly publish my guilt, if I did not know that most of my readers were equally guilty with myself, and that their deeds would look no better in print."

Sweet corn in season was prominent in the diet. Bread he made first of pure Indian meal and salt—genuine hoe cakes. In the end he found a mixture of rye flour and Indian meal best. Thoreau made a special study of the art of bread making. He had in summers often a satisfactory meal

simply with a dish of purslane, gathered among weeds in the corn-field. Thoreau had harsh words for the farmers nearby, for already they were selling their corn and rye in the markets and purchasing flour for their kitchens.

II

FOR THE BRIEF PERIOD of only a little more than two years, Thoreau lived at Walden Pond. He had only to get clothing and fuel. He could generally barter for food, avoiding trade. The furniture, the type that came from village garrets, cost nothing. "Thank God, I can sit and stand without the aid of a furniture warehouse." For some years, including the Walden era, Thoreau maintained himself by the labor of his hands, and he had much time in winters for study. He had tried "school-keeping," but he found he had to dress, think and believe accordingly. He also found that he was not teaching for the good of his fellow man, but simply for a livelihood, and "this was a failure."

Why did Thoreau go for this brief period to Walden? Here was a scholar who was in search of simple means of support. Hence he made an experiment in independent living through subsistence farming. His explorations of the rich treasures of nature were considerably enhanced. He wrote a notable book recording the experience, including expositions of his own philosophy of life. Later, he was making pencils and a special graphite, surveying, lecturing, etc., for the cash he needed for a living. The experiment in Walden also enabled him to keep his contacts in Concord. He was in town a good deal on afternoons and Sundays.

But what was conceived as a practical matter of private business for the support of an unconventional author became in due course a matter of much wider significance. The sojourn in the wasteland on the town's edge became also a defiance of the rising industrialism, and in the light of all of

Thoreau's life and teachings, it is now generally so interpreted. The experiment at Walden was but one of Henry David Thoreau's answers to the builders of the railroads, and to the increasing mechanization of industry and agriculture, which he described as improved means to an unimproved end.

Although the book "Walden" was not published until 1854, the Walden period was productive of literature. Thoreau kept carefully the journal on which the book was later based. After a year at Walden, he had ready for printing his book, "A Week on the Concord and Merrimac Rivers." During the stay Thoreau made an intensive study of the pond itself, including its fish population. His biographer, Henry Seidel Canby, writes that "the social thinker, the scientist, and the artist concerned with form as well as meaning, all awoke in Thoreau at Walden."

Within the Walden period, too, was Thoreau's brush with civil power which was later to have repercussions throughout the world. In 1846, Thoreau refused to pay his poll tax, largely because he disapproved of the war with Mexico. He says in his essay, "Civil Disobedience" (1849), that he had not paid the tax for six years. It seems he paid other taxes but especially abhorred the poll tax, which illustrates how amazingly current some of his thoughts still are. The incident is variously interpreted, but it is clear that Thoreau spent one night in jail, and was let out after a relative paid his tax. Thoreau went to picking berries. There is documentary evidence that he paid his poll tax without murmur in the year 1849.

Entries in the "Journal" during the Walden sojourn reveal that there the basis for the treatise on "Civil Disobedience" was being laid. There are pointed references to State power, and the value of the individual. The essay was a discussion of the jailing. It was ignored at the time of publication

and for many years afterward. But it was read by Mohandas Gandhi, and became the guidebook of the whole civil resistance movement in India.

It has been reported frequently that Emerson visited Thoreau in jail and said, "Why are you there, Henry?" Thoreau's alleged reply was, "Why are you not here?" Canby concludes that Emerson did not visit Thoreau in jail and that if the exchange between them ever took place, it must have been at some later time.

III

HOW SHALL THOREAU'S brief economic venture be appraised, now that a century has passed? The first chapter of the book "Walden" is entitled "Economy." It runs to eighty-seven pages in one edition, and is by far the longest in the book. Giving an extended description of the simple subsistence farming he carried out, it is an elementary consideration of what is now called the productive home or homestead. Thoreau wished to show that the good life could be lived, with as little as possible of an entanglement with the price and market régime that was already growing. He was demonstrating a method whereby a free man might undergird himself with a measure of economic security, and engage in spiritual adventure as well.

Thoreau made in the beginning of our industrial and commercial age the pointed criticisms still weighed by those who will take time to appraise the human costs of the trends of our technical advance. Man was developing vast power over nature, yes, but the individual, he insisted, was not growing in the process. Thoreau filed an early and vigorous dissent from the rising mechanization and commercialization of economic life. He asked for a search for the true values. The development of man, he wished to demonstrate, could go on without gadgeteering; indeed the gadgets, in his opinion, were interfering with that development.

The teachings of Thoreau belong today with those of a small group of decentralists, who hold that the human costs of industrialization have been too great, who love liberty so much that they would safeguard it by opposing economic concentrations generally—whether fostered by governments or corporations, or others. They believe that truly human arrangements will come through decentralist techniques, including the productive home or homestead. Thoreau's main economic ideas are still valid.

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What Are Profits?

By HARRY GUNNISON BROWN

FOR GENERATIONS—certainly for well over a hundred and sixty years—economists have distinguished three types of income from the productive process. These are income from labor, income from the ownership of capital and income from the ownership of land. Income from labor—at any rate when the labor is hired by an employer—has been called “wages.” To the income from capital some writers, *e.g.*, Henry George, have applied the term “interest.” And the income received by way of the ownership of land has commonly been called “rent” or, sometimes, “land rent” or “economic rent.”

It cannot be said that there has been any one generally followed and unquestioned terminology. Economists—and there are some—who use both the term “rent” and also the term “interest” to refer alike to income from capital and income from land, may strenuously deny that the usage referred to above is the prevailing one. But something like this use of terms has been general enough so that we may perhaps refer to it as more widely accepted than any other.

However this may be as regards “interest” and “rent,” there is wide variation in the use of the term “profits.” And it may be worth while to inquire (1) whether any of the meanings most frequently given to the term makes it helpful in economic analysis; and (2) whether there is an advantage in having any such term in addition to the terms “wages,” “interest” and “rent.”

I

JOHN STUART MILL defined “profits” as including interest on capital, wages of management and compensation for risk. The same usage was followed by Alfred Marshall.

As against this concept of "profits" the question at once arises why we want to include wages of management along with interest on capital in a single term. Wages of management, as such, are received for work done. True, the particular kind of work is not of the manual variety, but neither is the work of the accountant or the clerk or of those junior executives whom the top executive hires. Indeed, the top executive himself is pretty likely to be, in these days of wide use of the corporate form of organization, an employee of a corporation. To class together the returns on capital, received by stockholders of (investors in) the corporation, and the wages (salary) of a hired president or manager, under the heading "profits," would certainly be incongruous. Why should not the wages of the hired manager be classed rather with the wages of junior executives, accountants, clerks, artisans and other employees, since all of these incomes are received *for working*?

Probably the economists who have defined "profits" so as to include wages of management, especially the earlier writers, were thinking of individually owned businesses rather than of corporations. But, even if so, it still seems that the incomes received by business managers *by virtue of* their managerial activities, should be classed with other incomes that are received *by virtue of* work done rather than with incomes received *by virtue of* ownership of capital (or of land).¹

If we should follow in the inclusion of some wages and some interest in the term "profits" such writers as those referred to above, why should we not include some land rent in that term, also? If the return on his capital received by a man who is managing his own business is thought of as

¹ Even though a corporation is run, in the main, by a hired president or manager, the stockholders—at any rate some of the larger stockholders—may participate in management, as through attendance at stockholders' meetings. It may be contended, therefore, that some small part of their dividends should be reckoned, in strict theory, as "wages" for work.

"profits," along with that part of his return which comes from his management (and which, presumably, he would not receive if he hired a manager to do the work), why should we not include also, as part of his "profits," the part of his income that he receives by virtue of his ownership of land?

The tradition among economists is not to include this last in "profits." But the individual business man managing his own little business generally does so. Whatever he gains from his business over outlays for his goods, wages for his employees and payments made for the use of land and capital belonging to others, he is likely to refer to as "profits." He will not usually make any separation of his own gains into income from his labor, income from his capital and income from his land. Actually, a part of his income is due to his work, managerial or otherwise, for, if he did not work, his income would, in general, be considerably less. Another part is due to his ownership of land. This part he could enjoy even though he did no work, for potential tenants would be found ready to compete with each other in offering him rent for the use of his land. Still another part is derived from his capital and this part, too, since others are ready to pay him for the use of his capital, he could enjoy regardless of whether or not he works. But instead of saying that he receives these three kinds of income—which are conveniently referred to as wages for work, rent of land and interest on capital—he is likely to call the total his "profits."

The individual who owns and operates a business is likely to think chiefly of the net income from his business and to be interested relatively little in tracing this total income to its various sources. The term "profits" may involve as much analysis as he cares to be bothered with!

But what if (say) his land and capital together could be leased to another business man who would pay for their use

\$10,000 a year net (in excess of depreciation), whereas he is himself able to make only \$10,050 a year from running his own business. That would indicate that his managerial labor for an entire year adds only \$50 to the income he could enjoy if he did no work at all. It would presumably indicate that he was wasting his time in work for which he was not fitted and that he should either change to other work or, perhaps, devote his time to other things than earning (or trying to earn) a living. Thus, even to the individual proprietor who may imagine that he is not interested in dividing "profits" into its economically significant components, such division may be important as a guide to wise action.

II

BUT IF THE INDIVIDUAL business man, often, is not interested in an inquiry regarding the different factors from which his income is drawn and how much of his income is attributable or "imputable" to each, the student of economics ought nevertheless to be greatly interested. For such analysis is essential to an understanding of our economic order and, especially, to an appraisal of its fairness. Surely there is reason for distinguishing between an income which an individual receives from work that adds to the total output of enjoyable goods and, on the other hand, income which he receives by virtue of holding title to a part of the earth. The latter kind of income he could receive without work, merely by charging a tenant for *permission* to use that part of the earth.

To inquire here on a specific question of public policy, may it not be economically desirable to tax more heavily an income which owners of land can thus enjoy merely for *permitting* others to work on or live on the earth, than an income earned by productive labor?

There is a difference, too, between an income derived from

permitting men to work on the earth and to enjoy community-produced location advantages and, on the other hand, an income from capital brought into existence by means of one's own saving. As for the practical application of this distinction, it should be noted that a high tax on capital or the income from it may possibly discourage the saving necessary to produce it or may cause the capital to be invested in some other state or country where such a tax is not levied. But a land-value tax will not decrease the total amount of land or cause land to be transferred from one state or country to another!

Surely the student of economics interested in public policy cannot afford to rest satisfied with the lumping together of wages and interest and rent in a single term "profits." Rather will such a student insist—at any rate he ought to insist—on putting into one class all incomes from land, whether derived from an individual landowner's private business or paid to him by a tenant or tenants or received in the form of dividends on the stock of a corporation owning and using land. Such a student will—at any rate he should—insist on putting into one class all incomes from capital and distinguishing such incomes from land rent, even though the particular owner makes no distinction and calls them both "profits."² And the student of economics will wish to class

² Because it involves something of a digression from the main theme, I am not including in the text above any analysis of the excess gains of monopoly. Such excess gains may accrue to labor, if one or more persons are protected by labor union or governmental or other restriction against the competition of other workers in the particular occupation. They may accrue to the owners of capital, if the capital of rivals is in a similar manner excluded from the particular industry, *e.g.*, by the threat or actuality of unfair competition on the part of the would-be monopolist. And they may accrue to the owners of land, if other land is forcibly kept out of the particular line of production, as by the quota restrictions in the Agricultural Adjustment Act or by the threat of unfair competition, or if, through complete monopoly by one company or monopolistic collusion among several companies, the number of coal or copper mines or oil wells in use is restricted so as to hold down output and thus hold up price. The excess gains of monopoly may be, therefore, excess wages or excess interest or excess rent or any two or all three of these. If this fact is kept clearly in mind, there is perhaps no objection to referring to the excess gains of monopoly as monopoly "profits." But then we should logically, it would seem, use the expression "monopoly profits" for the excess *wages* paid to workers

together also, for a large part of his analysis, all incomes from labor, whether the labor be managerial, "junior" managerial, clerical, statistical, professional or manual.

But how about the view that "profits" include a "compensation for risk"? Or the view that "profits" are nothing but the excess gains from fortunate enterprises or in fortunate years which compensate, more or less, for the losses from unlucky ventures or in unlucky years?

If we are consistent in this use of the term, must we not say that "profits" are so offset by "losses" that in the long run and on the average there are really no—or almost no—*net* "profits"? In other words, may it not be that, on the average, the returns from a business will just about equal the ordinary or normal rate of pay for the capital, land and labor devoted to it?

If we are to make a special point of income received as "compensation for risk" in the case of a corporation or other business concern, should we not do likewise in the case of the salesman who works on a commission basis? For he, too, is "compensated" for his "risk" of having inadequate income at certain times, by his chance of having appreciably larger income at other times. The fluctuations of his income, in other words, are not entirely or, perhaps, at all, the result of fluctuations in his effort, concentration and skill. Shall we then call the excess income of his lucky weeks or months his "profits"?

Indeed, even the employee who is paid by the day, week or month, may be said to assume some risk, for example, the

in a trade where, by limiting the number of their competitors, *e.g.*, through limitation of apprentices, the workers in control of the trade are able to command higher wages for their labor than would otherwise be possible to them; or else we should distinguish between (say) *corporate* "monopoly profits" and *labor* "monopoly profits." And in thus referring to the "monopoly profits" of labor, we are including in "profits" incomes that are almost invariably thought of, spoken of and written of as "wages"!

But it is certainly important to distinguish between incomes earned in fair competition and the excess (and *unearned*) gains of monopoly, whether these excess gains accrue to capitalists, to landowners or to workers.

risk of periodical unemployment, the risk that failure of the employing concern will leave him minus some of his accrued wages, or the risk that his employer or some hired executive will abscond with the payroll, leaving the company without means to meet its wage obligations. Shall we then say that a small part of every worker's wages ought to be regarded as "compensation" for the "risk" that he will not continuously receive his full regular wage, and that this part should be separated in thought from the rest and be considered not as wages at all but as "profits"?

And how about the income received by the owner of a bond? May we not regard a certain part of this income as "compensation" for the "risk" that the full return promised, or possibly, even any return at all will not be realized? If so, just how much of the income received shall be thus reckoned separately from the rest and be classed with "profits"?

The truth is that there is risk in all the relations of life, including all the relations of business. Every type of income is subject to some possibility of fluctuation or irregularity, whether it be income from labor or from capital or from land. But to pick out a part of the income from each such source and put all these selected parts together under the heading "profits," tends to divert attention from the problem of the source or sources of the income. It tends to confusion in any attempt to attribute incomes to their respective sources, whether in productive contribution or in exploitation.

The choice of terms and of the meanings to be attached to them should be made in the light of the problem or problems we are seeking to solve. We should select and define our words with a view to emphasizing—not to blurring—the distinctions which need to be clear to us if we are to discover the cause and effect relations we seek and thereby further the adoption of wise and just policy.

III

IF WE CONSIDER "profits" as excess gains the possibility of which compensates for the risk of suffering losses, then we are directing our attention primarily to the *fluctuations* in incomes. If, indeed, it is the up and down fluctuations and, in general, the variations from the norm or average, rather than the average and normally-to-be-expected income in each industry and from each source, in which we are interested, this use of the term "profits" is relevant. But it is hardly relevant to an inquiry which would trace incomes to their sources in the so-called "factors of production," *viz.*, labor, land and capital.

Suppose we wish to examine critically the socialistic view that all incomes from property are unearned. We shall get no help in this venture from a demonstration that, in proportion as demand for a particular commodity is inconstant or unpredictable, the income from the capital used in its production is likely also to be inconstant or unpredictable, with the chance for gains above the average per cent offsetting the chances of lower than average gains and of positive loss.

Or suppose we are interested in a study of the rent of land. Suppose we are considering the fact that land rent is received from geologically-produced and community-produced advantages for which some men are allowed to charge other men. Suppose we are inquiring, then, whether land rent thus going to particular individuals is not really unearned. Suppose the question is raised whether the rent of land differs from both interest on capital and wages of labor, because it is not paid for any equivalent service rendered. Suppose, in short, that we are seeking to test incomes received by their relation to functions performed. Surely, in that case, we shall get no light from the fact that what a tenant agrees to pay for the use of a piece of land is sometimes a

fixed amount and sometimes a proportion of the output. In the latter case, a few writers might regard the above-average income of the landowner from his land, which he receives in good years, as "profits." But both the above-average income of good years and the below-average income of poor years he receives *by virtue of* his ownership of land and *not* by virtue of his *doing* productive work or of his owning capital brought into existence by work and saving.

In the voluntary agreements of business, it is customary for some persons to assume the major fluctuations in income and thereby guarantee, to some extent, more constant income to others. Thus, if the owner of land and capital hires a manager to operate the business in which they are used, he will probably agree to pay this manager a definite or constant wage ("salary") during some agreed period. He then accepts for himself a somewhat fluctuating and unpredictable rent from his land and interest from his capital. But if, on the other hand, the manager hires from the owner the land and capital to be used in the business, the conditions are reversed. The rent paid to the owner for his land and the interest on his capital are agreed upon in advance. They are constant or definite (barring business failure by the manager, or some kind of fraud) while the wages (though he may call them "profits") of the manager take the unpredictable fluctuations resulting from the changing circumstances of demand, "cost," etc.³

Or, again, the owner of a piece of land may be promised a definite or constant rent by a person (or a corporation) undertaking to construct buildings and other improvements to be used with the land in some kind of production. The owner of the improvements may hire workers for definite or constant wages. His own income—interest on his capital

³ The continuously larger than average returns to the superior manager are, of course, to be regarded as wages and mirror such a manager's superior productiveness.

—is then subject to fluctuation and may be more than the usual per cent return on capital, or less, or he may lose some of his original investment. And if, instead of hiring a manager to operate the business to which his capital is thus devoted, he manages the business himself, then he receives unpredictable or fluctuating wages as well as unpredictable or fluctuating interest on his capital.

Still again, such a tenant may borrow part of the needed funds to construct the capital, providing the remainder from his own savings. If he does so, then the interest from his own capital used in the business is unpredictable and subject to fluctuation while the lender's interest and the landowner's rent are, both of them, relatively constant and predictable.

By means of these various agreements, freely entered into in the operation of the system of free private enterprise, some accept relatively fluctuating and uncertain rent or interest or wages while others arrange for rent or interest or wages that are relatively constant and certain. But the fact that some accept more risk than others does not change or in any essential respect weaken the argument for distinguishing among the various incomes on the basis of whether they are due, respectively, to the recipients' labor, to their ownership of capital that has been brought into existence through work and saving, or to their ownership of part of the earth.

If the use of the term "profits" diverts attention from such a functional analysis—and often, I think, it does—it may seriously interfere with the development of a general understanding of what is most fundamentally awry in the division of the product of industry among the various contracting parties concerned with it.

University of Missouri

The State and Reconstruction*

By VINCENT J. RYAN

THE FUNCTIONS of the State are succinctly set forth in the preamble of the United States Constitution as follows: "To establish justice, to secure domestic tranquility, to provide for the common defense, to promote the general welfare, and to secure the blessings of liberty."

Through most of our national history we have acted on the assumption that the government which rules the least rules best. We have been fearful lest our liberties be taken from us by a too powerful government. This attitude has been in evidence particularly in the restricted interpretation given until recent days to the general welfare clause of our Constitution. Attempts to pass laws to ameliorate the condition of disadvantaged classes have been stigmatized in the past as infringements of liberty, class legislation, and a departure from the principle of equal justice for all. The last decade, however, has witnessed a radical departure from this restricted application of the words "promote the general welfare." Our government during the past ten years has done things which would have been pronounced unconstitutional and un-American twenty years ago. Under the powers granted by the general welfare clause, the government has launched gigantic relief programs, regulated agriculture and labor, and appropriated large sums for assisting disadvantaged groups.

The Spirit of the Social Encyclicals

THE FUNCTIONS of government as set forth in the Constitution of the United States are in complete harmony with

* [Based on an address at the 22d annual convention of the National Catholic Rural Life Conference, Cincinnati, O., Nov. 13, 1944. The author, the Most Rev. Vincent J. Ryan, D.D., Bishop of Bismarck (North Dakota), is a veteran farm leader.—EDITOR.]

the social encyclicals of the modern Popes. The Constitution of the United States names the establishment of justice as one of the first functions of government. On this point Leo XIII writes as follows:

Among the many and grave duties of rulers, who would do their best for their people, the first and chief is to act with strict justice—with that justice which is called in the Schools distributive—towards each and every class. . . .

Rights must be religiously respected wherever they are found, and it is the duty of public authority to prevent and punish injury and to protect each one in the possession of his own. Still, when there is a question of protecting the rights of individuals, the poor and helpless have a claim to special consideration. . . .

Wage earners, who are, undoubtedly, among the weak and necessitous, should be specially cared for and protected by the commonwealth.¹

The statesmen of the nineteenth century were not at all inclined to accept the claims before the law which Leo XIII advanced for the weak and necessitous. They regarded such concern beyond the functions of government and a violation of equal rights before the law.

To promote the general welfare and safeguard the rights of all is the first duty of the State, according to Leo XIII. Elsewhere in the same encyclical, he says:

Those who govern the State ought primarily to devote themselves to the service of individual groups and of the whole commonwealth, and through the entire scheme of laws and institutions to cause both public and individual well-being to develop spontaneously out of the very structure and administration of the State.²

The way in which the State should promote the general welfare and "secure domestic tranquility" and justice is the subject of detailed emphasis in the social encyclicals. Both Leo XIII and Pius XI emphasize the rôle the State should play in protecting the right of the individual to a decent

¹ *The Condition of Labor (Rerum Novarum)*, 1891.

² *Loc. cit.*

family wage and to decent living conditions, and the right and duty of the State to exercise a certain control over the ownership of property. On the question of ownership Pius XI states the following:

It follows from the twofold character of ownership, which we have termed individual and social, that men must take into account in this matter not only their own advantage but also the common good. To define in detail these duties, when the need occurs and when the natural law does not do so, is the function of the government. Provided that the natural and the divine law be observed, the public authority, in view of the common good, may specify more accurately what is licit and what is illicit for property owners in the use of their possessions. Moreover, Leo XIII had wisely taught that "the defining of private possession has been left by God to man's industry and to the laws of individual peoples."³

The right and duty of the State "in view of the common good, to specify more accurately (under certain conditions and within certain limits) what is licit and illicit for property owners in the use of their possessions," represents an application of the general welfare principle unacceptable to many. Many are fearful of such a grant of power to the State. The principle enunciated by the Holy Father, however, rests on sound reasoning and represents the traditional teaching of the Catholic Church.

But what is meant by the State in the papal encyclicals? In defining the duties and functions of the State, Leo XIII had in mind the ideal Christian State which acknowledges that its authority comes from God and which operates on Christian principles, for he wrote:

By the State we here understand, not the particular form of government which prevails in this or that nation, but the State as rightly understood; that is to say, any government conformable in its institutions to right reason and natural law, and to those dictates of Divine wisdom which we have expounded in the encyclical on *The Christian Constitution of the State*.⁴

³ *Reconstruction of the Social Order (Quadragesimo Anno)*, 1931.

⁴ *Loc. cit.*

The Modern State

CAN WE HOPE that any modern government will measure up even in a remote way to the specifications for the State laid down by Leo XIII? If the modern State approximated this ideal, we might be less hesitant about entrusting it with the power to do all the things the encyclicals specify as the duties of the State. An appeal to the encyclicals to justify the extension of governmental powers of the State will not be entirely warranted until we have succeeded in impregnating the State with Christian social philosophy. Unless Christian social philosophy be accepted by those who rule, the extended powers might be used unjustly and against the rights of special classes or even against the general welfare. Many view with alarm the extension of governmental powers because they fear the use that may be made of them.

In view of the fact that we have no State which approaches the ideal, the extent to which the powers of the State should be increased is a practical question. Only necessity justifies a pronounced increase of power. The limits of government intervention that is necessary are dependent on the readiness of groups of citizens to co-operate in working out problems voluntarily without government intervention. The government should intervene only where it is necessary; for government intervention always means a curtailment of liberty and an increase of the danger of the misuse of power. This norm, too, would be in harmony with the principle set forth in the Papal Encyclicals calling for the intervention of the State only where necessary. It seems wiser to take the longer route through private endeavor and co-operation rather than the short route of State intervention, provided that private endeavor and co-operation give promise of success without State intervention and control.

The expansion of co-operative endeavor, which should be fostered by the government, may eventually reduce the need

for government regulation. Co-operatives, however, must be wisely organized and impregnated with Christian principles and conducted along the lines of justice; otherwise they will fail of their objective. The sound development of co-operatives might eventually prove the middle way between the disorders of our present system and governmental control.

In getting out of the difficulties which will beset our nation in the post-war world, we must give our government a wide extension of power, at least for a time. Because of necessity we must invest the federal government and the several state governments with powers we might otherwise be loath to grant for fear of their misuse.

A Just Peace

FIRST OF ALL, we must depend upon our government to negotiate a just peace. We cannot, however, leave the negotiations for a just peace entirely to the functionaries of the government at the peace table. Unless we have a well-informed public opinion that will bring pressure on those who represent us, there is danger that we shall have merely an armistice instead of a just and lasting peace. A lasting peace will be a peace founded on justice, and one in which the selfish interests of nations, groups, and individuals will be subordinated to the general welfare of mankind. The Atlantic Charter provides principles upon which a just peace can be grounded. Only an informed public opinion can prevent the successful triumph of power politics and the balance of power principle. To prevent a tragic outcome at the peace table, and to forestall unjust peace terms that carry the seeds of future wars, the persistent, watchful, and understanding interest of individuals and groups will be necessary.

When the clouds of war have rolled away, there shall lie

before us a world to reconstruct. The government, with the co-operation of its citizens, must provide material assistance to the war-torn nations of the world, for peace and prosperity in our nation is dependent on peace and prosperity in other nations. The shipment of consumption goods to relieve the poverty and want that will follow in the wake of war will be insufficient. Constructive means should be taken to restore the agriculture of invaded countries, including in particular the re-establishing of flocks and herds. We shall find liberated countries that have been stripped entirely of their cattle and even their goats. The shipment of evaporated milk, meat, and other foods is only emergency relief. We must provide the people of Europe with foundation stock to start their herds again. Once more, public opinion and the vigilant interest of understanding citizens will be necessary to insure a sound relief program.

Post-War Social Problems

THE GIGANTIC PROBLEM resulting from the dislocation of population will be one of our major post-war problems. This problem will be especially acute in the transition between a war-time and a peace-time economy. In an article on the aircraft industry a writer in *Collier's*⁵ says, "You may celebrate peace today but the west coast's 750 million dollar aircraft industry and its 500 thousand dependents are afraid it might be the start of a long, hard winter." This statement would apply in many places and to many industries. The solution lies chiefly with the federal government.

The problem arising from the concentration of workers in large centers has been greatly aggravated by the war. They cannot be absorbed into other activities in their present location. In fact, industry, even over a long period, can never hope to absorb them. A more even distribution both of

⁵ Oct. 23, 1944.

population and of industry is not only desirable but even necessary in the United States, if we are to avoid large scale unemployment and make proper use of the resources of the nation. Only a strong government can effect the necessary changes.

To forestall State socialism, the government should promote widespread home ownership and widespread ownership of productive property. This widespread ownership is essential in order to safeguard our democratic institutions. *Nothing less than widespread ownership will quell the agitation for State socialism and even communism.* It is unfortunate that a sizeable portion of the large wages received in defense work was not paid in securities that could be exchanged only for homes and for productive property. Millions are spending all they earn on consumption goods. This spending, in turn, has tended to produce inflationary prices.

America is noted for its ability to produce wealth. Our distribution system, however, has been very defective. Equitable distribution is necessary to keep the wheels of industry in motion and agriculture on a sound basis. Where private effort fails to effect justice, it is right that the State intervene. The public welfare requires the intervention of government to secure just wages, just prices, and fair profits. This will be especially necessary in the transition period after the war. Regulations for this purpose were found necessary during the war. If controls are discontinued after the war, we shall have a disastrous inflation, followed by a panic and a general upset of the financial structure of the nation. The result will be most favorable for the advocates of State socialism and communism.

Protection for Agriculture

IN THE POST-WAR WORLD we shall be faced again with a disastrous decline in agricultural products that will ruin agri-

culture again unless the government steps in and places price floors under agricultural products. It is presumption to expect that co-operative endeavor alone will succeed in bringing about anything like a fair price for farm products, at least under present conditions.

Whether we like it or not, the use of land must be regulated by government. The government has the right and the duty to insist upon the conservation of the soil since it belongs to all the people, including generations yet to come. Conservation of soil and proper land use can be effected only by a strong government. The soil conservation programs of the federal government should be continued and expanded.

The government should intervene in helping the disadvantaged farmer both with loans and with counsel. The Farm Security Administration with all its faults, saved many disadvantaged farmers and placed them on the road to self-sufficiency. If it were not for the assistance of the Farm Security Administration, a multitude of farmers who are now self-sufficient would today be among the proletariat. Some government agency similar to the Farm Security Administration is needed in nearly every state of the union.

Government intervention is needed to check and forestall land speculation. Because of land speculation the farmer often pays more for his land than is warranted by its productivity. The farmer loses more by paying too much for land than he loses through crop failures. A *drastic future increment tax on land* would be an effective means for checking land speculation. This is a problem for the individual state. States should also devise suitable tenancy laws for the purpose of protecting the rights of tenants. Even the conservation of the soil demands a reform of our tenancy laws.

The natural right to a decent wage is insisted on in the social encyclicals. This right also belongs to agricultural workers. All who work as laborers on the land are entitled

to a decent family income from the land they cultivate. The government can and should aid in bringing this about. If the law required that a decent family wage be paid to all who are employed in agriculture, *the evils of commercial farming would come to a swift end*. Such a law would be beneficial to the small farmer who employs help on a limited scale.

Unfair freight rate schedules militate against the less populous sections of the nation. These discriminatory freight rates place the farmer in these areas in a disadvantageous position both in buying and in selling. Unfavorable freight rates forestall the development of the natural resources of a region and prevent a desirable decentralization of industry and population. Because of discriminatory freight rates, an up-to-date packing plant in western North Dakota would be an undesirable gift. No one could afford to operate it. The federal government should regulate freight rates in an equitable way to encourage the development of industries and of natural resources in the areas of the nation where there should be a larger population. This would stimulate a decentralization both of industry and of population and also help stabilize the income of these areas.

Provision for Returned Soldiers

PROVISION FOR THE RETURNED SOLDIER is a national problem. It is primarily the problem of the federal government. The Serviceman's Readjustment Act, known as the GI Bill of Rights,⁶ is intended to provide for the returned soldier. Under certain conditions ex-service men are provided with grants for one year of special training. Some, whose courses of study were interrupted because of the war, may receive grants for as much as four years of college. The law also *guarantees* loans for veterans up to \$2,000 for the purchase

⁶ Public Law 344, June 22, 1944.

of homes, farms, businesses, repairs, stock, machinery, equipment, etc. There are also certain allowances for unemployed members of the armed forces.

After all former wars, there has been a desire on the part of very many ex-soldiers to take up farming. War breeds a desire for peace and security. War also brings good prices for farm products. The hope of continued good prices attracts the ex-soldier to the land.

Unfortunately, war prices also tend to produce inflation in the price of land. This happened after the last World War. Many of the returned soldiers bought at inflated prices; many were located on undesirable land; some did not know how to farm; and some did not have sufficient machinery to carry on farm operations. The sad result was bankruptcy. Considerable caution and direction will be required in promoting land settlement for returned soldiers after the war.

All veterans who desire to take up farming and have the qualifications for it should be given the opportunity. But is there sufficient land available? We no longer have a frontier with a supply of unused land. In 1941 the Federal Land Bank, the Bank of North Dakota, and the various subdivisions of the state of North Dakota were owners of vast acreages. The desirable tracts have been disposed of since. A recent survey to find out what land would be available for returned soldiers ended in results that are not encouraging. The best land is not available. It would be a mistake to place soldiers on unsuitable land.

Irrigation and Reclamation

IRRIGATION OFFERS POSSIBILITIES for bringing large areas into cultivation; but irrigation is a long-term proposition. It takes years to develop irrigation projects. The federal government should proceed with irrigation projects with the

greatest possible speed. Irrigation construction would also provide much-needed opportunities for employment in the period immediately following the war. The amount of irrigated land permitted to a single holder should be limited to a family-sized unit. Irrigation is needed to stabilize agriculture in areas of insufficient and uncertain rainfall. Certain groups oppose the development of irrigation projects because they want the water for navigation. In the interest of public welfare the use of water for navigation should be subordinated to the needs of water for irrigation.

It seems only reasonable and just that the returned veterans who desire to farm should have the opportunity to settle on the land. If great numbers select farming as an occupation, I am unable to suggest the technique which should be followed to make farms available. Perhaps the solution lies in the application of a suggestion given by Pius XII in his message of September 1, 1944, marking the fifth anniversary of the War. The Holy Father spoke as follows:

The State may, in the public interest, intervene by regulating the use of property, or even, if it cannot equitably meet the situation in any other way, by decreeing the expropriation of property, giving a suitable indemnity. For the same purpose small and medium holdings in agriculture, in the arts and trades, in commerce and industry, should be guaranteed and promoted.

Medical and Hospital Care

EVEN BEFORE THE WAR we were aware that medical and hospital facilities in the United States were badly distributed. Rural areas especially suffered from a lack of hospitals and doctors. The incomes of millions of people in the United States have been too low to provide proper medical and hospital care. As a result the health of the nation has suffered. This was especially true in the thirties.

Free hospital and medical care are provided for the needy and indigent by cities, counties, and even states through the

public welfare agencies. The coverage has been far from adequate. Aid has been furnished entirely on a relief basis. Millions in the lower income brackets, but not rated as indigent, have been unable to secure adequate hospital and medical services. These conditions paved the way for a national health bill, which would provide hospital and medical coverage even for those with fair incomes.

Is this extension of governmental functions advisable? There are reasons for fearing State monopoly in hospital and medical care if the bill as proposed were to become a law. It would seem better if some other means, which would safeguard private endeavor, were found to solve the problem. Hospital pre-payment plans, known as Blue Cross Plans, and pre-payment medical service plans, now under consideration, would be a solution if all the people were to receive incomes which would enable them to purchase the services provided by these plans. These mutual aid plans, however, should be expanded to provide complete coverage.

The Danger of Socialism

CONDITIONS THROUGHOUT the nation after the war will be ripe for some form of *State socialism*. The government will have large financial investments in many industries and in many of our large manufacturing plants. During the transition from a war-time to a peace-time economy, multitudes will be depending upon the government for jobs and for their daily bread. During the war period they have become accustomed to large incomes, which cannot be continued at the present level. With these incomes they have developed a taste for spending. Having no property of their own, because they neglected to save, they are apt to clamor that an omelet be made of the nation's wealth for division among the people. The wisdom of our leaders will be taxed to preserve our democratic way of life. Wise businessmen and

wise leaders in labor and in agriculture will co-operate with government to find the way out.

Our economic system needs an overhauling. It has been operating as an economy of scarcity. Commodities and services are made scarce in order to maintain or raise prices. Manufacturers and processors limit the amount of goods on the market so as to keep up prices and make greater profits. Organized labor aims to keep up wages, by shortening hours, reducing the output of labor, and limiting the number of apprentices, putting labor groups in conflict with the rest of society and with other laborers. The farmer, too, in order to secure just prices for the things he raises, attempts to control and limit production, and in some instances the fruits of the earth are destroyed to secure a just price.

An economy of scarcity means a wasteful conflict between the various groups in society. It is the weakest point in our economic system. The advocates of communism and fascism have made this defect the subject of mocking gibes. Both the communist and the fascist propose to operate on an economy of abundance, but at the sacrifice of liberty and human rights. Some way must be found to operate as an economy of abundance if we are to justify our economic system. The co-operation of leaders from business, labor, and agriculture, for the purpose of bringing about an economy of abundance, would reduce the need for governmental interference.

Many will oppose the extension of governmental functions in the post-war world in the name of free enterprise. The issue in America is not free enterprise versus control or regimentation. The alternative to governmental regulation supported by a wise citizenry is some form of *State socialism*.

*Diocese of Bismarck,
Bismarck, N. D.*

WE MUST MAINTAIN the offensive against evil in all its forms. We must work and we must fight to insure that our children shall have and shall enjoy in peace their inalienable rights to freedom of speech, freedom of religion, freedom from want, freedom from fear. Only on these bold terms can this total war result in total victory. . . . The better world . . . will not come merely because we shall have won the war. It will not come merely because we wish very hard that it would come. It will be made possible only by bold vision, intelligent planning and hard work. It cannot be brought about overnight; but only by years of effort and perseverance and unfaltering faith.

We expect the opportunity to work, to run our farms, our stores, to earn decent wages. We are eager to face the risks inherent in our system of free enterprise.

We do not want a post-war America which suffers from undernourishment or slums—or the dole.

FRANKLIN D. ROOSEVELT

International Monetary Reconstruction

By ELMER WOOD

BEFORE CONSIDERING any particular post-war monetary plans we should try to see why there is commonly believed to be a need for some new procedure for international monetary co-operation. Why should it not be expected that the various countries will simply return to the international gold standard as soon as they are able to do so—with perhaps a devaluation in the case of currencies that have become seriously depreciated during the war? That was the common attitude at the end of the First World War. The reason for a different attitude today seems to lie in the lessons which it is thought the inter-war period has taught us.

I

By 1929 it was generally supposed that the gold standard was re-established on a firm basis. The world as a whole appeared to have made substantial economic recovery. Though there were depressed areas, it was thought that they were due to special circumstances. Even in England, where economic depression had lingered since 1921, opinion was divided as to whether the main responsibility lay in the return to the pre-war gold pound or in a variety of non-monetary causes. And even supposing too high a gold value for the pound had been chosen, this was no indictment of the international gold standard as such. In some financial circles, and among many economists, there was a belief that the leading central banks had made great progress in co-ordinating their policies and that the world might look forward to the elimination of the extremes of boom and depression such as had occurred several times within living memory.

The depression put an end to this line of thinking, and as it persisted it became the fashion to believe that there had been something rotten in this golden apple all along. Not that the depression was attributed primarily to monetary causes—for, as we all know, the prevalent view was that it was due to deep-seated economic causes such as may be indexed by the words *economic imbalance* or *vanishing investment opportunities*. Nevertheless it was held, especially abroad, that the difficulties had been greatly aggravated by the failure of America to “follow the rules of the gold standard game.” By this it was meant that we permitted gold to pile up in this country without doing what we could to start a wave of economic expansion. By stubbornly refusing either to buy or invest abroad in adequate amounts, we sucked in the monetary reserves of other countries to the point where the gold standard could no longer function. Certainly with this interpretation of their experiences under the inter-war gold standard, foreign nations are in no mood to return to where they left off in 1929.

Also it must be remembered that the abandonment of gold in the thirties was not accompanied by ruinous or unwelcome inflation, such as had characterized the paper currencies of the early twenties, but rather by what was regarded as a partial recovery of prices to more normal levels. Also there was a pronounced business revival. So separate national currencies or currency blocs no longer held the terrors they once had. Separate national currencies met favor from another angle; they fit in with prevalent ideas of the national control of economic activities and public expenditure programs to relieve unemployment and to rearm.

But this very determination to have recovery within a given country, regardless of what was happening in the world at large, resulted not only in competitive exchange depreciation but in exchange rationing systems, frequently with mul-

multiple exchange rates,¹ increased tariffs, and a mass of other devices that interfered with international trade. The dollar value of the imports of all countries in 1938 was little more than two-thirds of what it had been in 1929. The world economy seemed in fact to be disintegrating into separate national economies. While this situation grew out of attempts to escape from something far worse—black depression—it was not one the world can look back upon with satisfaction. There was indeed an impressive recovery in economic activity from the early thirties, particularly in countries engaged in rearming, but, taking the world as a whole, it was far from complete and the position of countries whose economies were geared to large exports was especially precarious. Thus, though the world has turned its back on 1929, neither can it look forward with hope to returning to the economic situation of the late thirties. Furthermore, during the present war there has been a reaction against the idea that a nation can live for itself alone. It is felt that there can be no security in a world in which there is no economic unity. And yet the sinners are not completely convinced that sin does not pay and they are willing to abjure it for the future only with reservations.

Since both kinds of monetary systems tried during the inter-war period—the international gold standard and separate national currencies—had led to a feeling of disappointment and frustration, it is not surprising that public opinion on the whole question of international monetary relations should have failed to crystallize. At the same time there has developed during the war a tolerance toward new ideas that promise to lead to better things and a feeling that if we are sufficiently determined we may yet shape the world more

¹ The main reason for a country's having different rates of exchange for different classes of exports was to avoid cutting prices on the world market except to the extent that there was need for it. The amount of foreign exchange collected for total exports would be greater that way.

toward the heart's desire. It was in such an intellectual environment that the Keynes plan for an International Clearing Union was submitted to Parliament two years ago.

II

THE GENERAL PLAN was very simple in theoretical outline. Though its mechanics were stated in terms of the British overdraft credit, no principle was involved in this, and they can readily be stated in terms with which Americans are more familiar. The plan provided for a "*quantum*" of international money to be created by an International Clearing Union and to be divided among the participating countries according to their need for international liquidity—what would give them a feeling of security with regard to meeting their international payments.² This international money was to be accepted in unlimited amounts by the monetary authorities of the separate countries in payment for their own national currencies. Normally the rates of exchange between the international money (called *bancor*) and the national currencies were to remain fixed, though they might be revised to take care of difficult situations (*e.g.*, where serious internal deflation would otherwise be unavoidable). One can see here a certain analogy to the gold standard mechanism, or at least what it has been thought to be. If any country were expanding the demand for goods and services quite out of line with the others, it would be com-

² In more exact terms, the plan provided for assigning to each member country a "quota" of *bancor*, which determined the amount it could overdraw its account with the Clearing Union. Any member desiring the currencies of other members could obtain them by having their value charged against its account, the accounts of the members whose currencies were requested being credited. Thus the *quantum* of Clearing Union money available to any member would be the amount of its original overdraft facility minus its net payments to other countries; or, in the case of countries not overdrawing, its original overdraft facility plus its credit balance. There was the further complicating factor, however, that restrictions came into force after a country used up a certain portion of its quota. Therefore it could view as the full equivalent of cash only that portion about which no question would be raised. But this portion was to be large enough to prevent any undue reluctance to make payments in favor of other countries. Individual as well as aggregate quotas were to be revised from time to time.

pelled to pull back as the result of a loss in its reserve of international money, which though not an inelastic quantity was effectively limited. On the other hand, if a country lagged behind the others, it would accumulate a larger reserve of international money than it would have any need for. Presumably, as a country's reserve mounted, it would tend to expand credit internally; but in order to prod it further the plan provided for a service charge on the amount of its reserve deemed excessive. This innovation shows Keynes's impatience with a country that refuses to buy but takes the income earned from other countries and hoards it. (Some may recall that proposals on the same principle were made during the depression to penalize the hoarding of domestic currency.)

Such a plan is admirably designed to show the futility of a continually favorable balance of international payments. The hoarding country would not even have the satisfaction of piling up gold, but would have only paper claims to show for its pains. And even these claims, beyond a certain point, would shrink a little each year through the operation of negative interest. There was a still further means of protecting the other countries of the Clearing Union against a hoarding country, and thus against deflation. The *quantum* of international money could be increased by the international authorities to whatever point they believed to be in the common interest.

Thus the plan provided for a common world currency with the idea of bringing into closer union the various national economies. Prices in all countries could be integrated into one consistent fabric—just as the gold standard would have done in its best days. But the plan further provided that there should never be a general shortage of international reserve money excepting only such restraints as the international authorities might impose to prevent inflation in

the world economy as a whole. This the gold standard would *not* have done. In a word, the plan promised all the advantages of the gold standard of history but without its disadvantages.

Something should be said in this connection about the place of gold in Clearing Union procedure. As a concession to gold-producing countries and to those with large stocks of gold, and possibly to conciliate persons who are devoted to the forms of the gold standard, the plan provided that any member could sell gold to the Clearing Union in exchange for balances of international money. But no member could demand gold in exchange for international money. On the other hand, the Clearing Union authorities, at their option, could distribute gold to countries with sufficiently large balances. The price paid for gold (in terms of *bancor*) could be varied by the Clearing Union authorities, apparently with the idea of influencing the amount of gold mined. It seems evident, however, that gold played no essential part in the plan.

III

A SERIOUS WEAKNESS of the Keynes plan, as well as similar plans, is that it failed to take sufficient account of the importance of international financial centers in the working of the international standard. The plan assumes that the influence exerted by all countries is of the same general order of importance. But in fact London and New York influenced the monetary behavior of a large part of the world before the war, and under a unified world system predominance would no doubt lie with New York. Instead of the Clearing Union authorities controlling all member countries directly, they would find that their real task was to control the behavior of New York, and, through that channel, the rest of the international economy. No doubt the Clearing Union could have its way in the end. But, just as the Ameri-

can system is now relatively insensitive to gold movements, it might be expected over the short run to be insensitive to balances in the Clearing Union. For the plan to work at all smoothly the American authorities would have to make the aims of the Clearing Union their own. (The means by which a financial center exerts such a powerful influence will be discussed briefly at a later point.)

But the practical difficulty of the plan was that it involved an unlimited commitment on the part of the American authorities to supply dollars in return for international money (credit balances in the Clearing Union). Other countries could therefore have bought goods and securities in the United States to whatever extent the Clearing Union authorities were willing to supply them with the means. Furthermore, because of the practice of foreign banks in holding a large amount of their ultimate reserves in the form of dollar balances, there would undoubtedly have been an exchange of their bancor balances for dollar balances. That is to say, our banks would have owed the foreign depositors and the Clearing Union would have owed the American authorities. Inevitably this country would have become the main creditor of the Clearing Union and all other countries would have become its debtors. Even this might not have been a burdensome position *if we could have had confidence in the permanency of the Clearing Union*; for in that case we could always view our supplies of bancor as rights to buy whatever we wanted in other member countries, just as we now view gold in that way. But, considering the high mortality of international organizations and the attitude of debtor countries, it can scarcely be supposed that we could view our growing supplies of bancor in any other light than as foreign debts owed us.

That our Government could not agree to an unlimited commitment to exchange dollars for the obligations of an

international organization was evident from the beginning. Accordingly the plans which have been proposed by the American Treasury have effectively limited our commitment to a moderate figure. And such a limitation has been continued in the plan finally agreed upon by the experts of the various countries at Bretton Woods. But while this meets the objection just raised, it should be realized that the plan is no longer one to establish a world monetary system with the idea of governing the flow of spending (in so far as a monetary system can do this). It is now merely a plan for making advances to member countries in return for their agreeing to use currency depreciation, exchange rationing, and certain other restrictive devices with moderation and only after agreement. Just how the world's monetary system is to be administered—where the authority for administering it shall be vested and what criteria that authority shall follow—is left to be determined in the future.

Now it might be reasoned that the Bretton Woods plan represents some very substantial gains even though it does leave important matters to the future. It is claimed that, since the member countries will have assistance in meeting any deficit in their balance of international payments, they will not need to resort very frequently either to exchange depreciation or to limitations on international payments as economic defense weapons. Exchange parities, it is said, can be determined in an orderly way. The answer is that the plan does not deal with the fundamental causes of the drift toward economic nationalism and that the aid America would give through the fund would be of only temporary value. If other countries are to maintain relatively fixed parities with the dollar they must have a more permanent basis for obtaining dollars.

Still, it might be argued, we have little to lose by going ahead with the plan—we should lose at most our money

contribution and we are in any case going to give aid to other countries after the war (as indeed we should). But the difficulty is that the plan is held out as dealing in a comprehensive way with the world's monetary difficulties, when actually its main effect would be the extension of foreign credits for a while longer. If, therefore, the scheme collapses after the dollars we have contributed have been used up, it will be set down as another important attempt at international co-operation that has come to grief. We ought not to arouse hopes where the prospect of their being dashed is so great.

IV

LET US APPROACH the problem on quite different lines but on lines nevertheless which we may hope will reach the final objectives that it is commonly agreed should be sought. These objectives are:

- (1) To provide for practically fixed relationships among national currencies—that is, in a certain practical sense a common world money. (Though all the official plans have properly provided for a revision of the external (or exchange) value of any national currency where that became necessary to avoid a serious internal deflation, it was expected that occasions for revision would be relatively few after general world stability had been attained.) Thus, as under the international gold standard, the prices of commodities and productive services could have a fundamental consistency throughout the international economy—that is, provided other conditions were also favorable.
- (2) All countries must be free to pursue a monetary policy, as well as other policies regulating demand, that will contribute toward a high level of economic activity and one which will avoid any serious inflation or deflation of prices.
- (3) Partly as a means to internal and external stability and partly as a consequence, serious trade barriers of whatever shape must be removed. Here is the great obstacle; but we must realize that an international currency has little meaning in a world in which practical freedom to trade does not exist.

These main objectives can be attained without the creation of any formal international machinery but by means that keep historical continuity with the monetary system that we now have. In brief, the proposal is for the United States to make the dollar such a stable and at the same time accessible currency that other countries will stabilize with it, as they have done in the past and as many of them do provisionally at present. Not only must we pursue a monetary and trade policy that promotes world prosperity after the war, but we must reassure other countries as to the future by some formal statement of the principles we propose to follow.

It is here that one should see what a predominant influence American monetary policy has had on the monetary behavior of the gold standard world. As the best short statement of the matter, one could say that for the past quarter century the gold standard has been a dollar standard, in the sense that the other countries (when on the gold standard) have had to adopt an internal monetary policy consistent with their maintaining exchange parity with the dollar. The American authorities, on the other hand, have been free within wide limits to pick and choose their goals.

From what source arose this power of the American currency system to govern other systems? It arose from the fact that other countries were by custom willing to accept dollars (drafts on American banks) in liquidation of international indebtedness, and for that reason any country could keep its ultimate reserve in the form of dollar balances, or other liquid claims payable in dollars, as well as in gold. The first line of defense was the dollar claims. Thus the monetary authorities of the countries in the gold area considered that they were sufficiently liquid when they had an adequate supply of dollars and that they must contract credit, with a view to reducing foreign purchases, when there was a scarcity

of dollars. Liberal buying or international lending by the United States meant more dollars for other countries, and a reduction of our buying and lending made them less liquid and forced contraction. Their difficulty in selling here not only made it more difficult to buy in America but more difficult to buy from one another as well. This may appear a novel idea at first view, but it follows from the fact that dollar exchange was international reserve money to other countries, and when the general supply was dwindling each country had to restrict purchases everywhere so as to prevent its own precious hoard from slipping away. That is, it had to as long as it remained on the gold standard, as long as it remained obligated to sell dollars in unlimited amounts at a fixed price in local currency. Most countries of the world during the thirties tore off their "gold straight jacket" and followed an independent monetary management or one based upon the pound sterling, but before they did so their efforts to maintain dollar (or gold) parity brought crushing effects to their economies. The drastic curtailment of our foreign lending beginning in 1929 and of our imports from 1930 to 1933 brought about "a famine of dollars" and led to unprecedented trade and exchange restrictions—and finally to the downfall of the gold standard. It was as if there were a world central bank which, by drastically reducing its securities, extinguished the world economy's supply of reserve money. While no doubt our tariff policy played some part, the main factor was the contraction of demand and the fall of money incomes within the United States. Without attempting to weigh the various factors responsible for the depression, it is proper to point out that the contraction of demand here was not forced upon us by what other countries did, whereas our failure to buy their goods and securities certainly forced contraction upon them.

A necessary working basis, therefore, for an international

standard based upon the dollar is for the United States to maintain economic stability. Of course stability here will be furthered by stability abroad—the lines of connection do not run entirely one way—but the necessary anchor must be the American economy. This means revising our ideas still further regarding monetary management. The world must be assured that we will not resort to a policy of inflation or deflation in order to deal with the gold problem or with problems peculiar to our domestic economy, for instance, stock market speculation.

There are, of course, important differences of opinion as to what are the most effective and appropriate measures for insuring economic stability. But if the dollar is to be the basis for a world monetary system, whatever measures we use should keep within the framework of a reasonably stable level of commodity prices. Even though there might be times when the American economy could stand some appreciable fall of prices without serious unemployment occurring, there will always be countries in special difficulties which can argue with good reason that the fall as transmitted to them would aggravate their unemployment problem or bankrupt their farmers. There will always be depressed areas even though economic activity is high, taking the world as a whole. If, therefore, we are to avoid any serious fall of prices, we must also avoid any serious rise. A stable level of prices would reduce the necessity of price and wage flexibility in the great industrial countries, and it would also make it easier for countries specializing in raw materials to make an adjustment to the world economy.

It is sometimes objected to this reasoning that stable prices can only be enforced by the creation of unemployment, that corrective monetary measures work their effect fundamentally by this means, and that we should renounce the use of this bitter remedy forever. Such counsel, if taken liter-

ally, would lead to a secular rise of prices that would have no end. It remains to be proved that such an outcome would not set up worse economic strains and cause more human misery than the restraints necessary to maintain a reasonably stable level of prices. The increase of labor efficiency would permit some rise of wages without a rise of prices; and the use of such moderate restraints as were necessary to maintain stable prices should not produce unemployment except where there is practically no price or wage flexibility. But some flexibility there must be; in fact it is difficult to visualize an international economy (or national economy either) that is almost completely rigid.

There are a great many people who have a sense of irritation upon hearing it suggested that price stability should be an important goal of economic policy. They conjure from their imagination a scheme where the money in circulation or the volume of bank reserves or interest rates are to change in some mechanical way with reference to an index number of prices. Nothing so naïve as that is proposed. What is suggested is that all means for stimulating demand should be used, and of such order of magnitude as experience warrants, when it becomes evident that prices have slumped appreciably from the chosen norm. Nor is it claimed that price stability can itself guarantee full employment over the world, assuming that such an end is attainable at all. The problem of unemployment should be attacked on many fronts. The real question, therefore, is whether the whole task would not be lighter if prices are stable than if they are allowed to fluctuate.

But in the world we live in there will be compromise, and one does not need to lay down iron-clad rules. Any combination of policies which gives a high level of economic activity while at the same time avoiding any serious price inflation or deflation will be a great improvement over what

we have had and should help to make the dollar a practicable basis on which other countries can stabilize their currencies.

V

PROSPERITY IN THE UNITED STATES is not alone sufficient for the smooth working of a dollar exchange area; this country must also have a liberal trade policy. It must be remembered that, for the other countries as a group, the means of maintaining their international reserve (in the form of dollar exchange) is by exporting goods or gold to the United States or by borrowing here. There is certain to be a variation in their demand for dollar exchange to hold as a reserve and, if an increased amount cannot be easily obtained by selling us more of their goods, their currency systems will be under pressure. They would thus have to initiate contraction in their domestic economies with a view to restricting imports from all countries. There is a further source of disturbance that requires counteraction by sending exports to the United States. Foreigners are certain to vary their rate of investment in this country, depending, for instance, upon their attitude toward the speculative possibilities of American securities. Also this country will vary its rate of foreign investment. When, therefore, net investment shifts more toward the United States, other countries must be allowed to make the capital transfer in goods and services or dollars will be scarce to them. For instance, the sudden decline in our purchases of foreign securities after 1928 certainly set up strains in foreign currency systems.

One does not need to argue that America must have complete free trade in order for a dollar exchange area to work effectively.³ But there must be a large enough range of articles on which duties are low (and also stable) to make

³ One can make out a good case, however, that England's free trade policy was an important factor in making the sterling standard work as well as it did (which was not always so well) during the nineteenth century. There were other factors of course, and a bit of luck.

our aggregate demand for imports quite elastic. Viewed from the foreign angle this means that their supply of dollars is elastic; and this is a *sine qua non* of their finding a common monetary standard with us tolerable. Without sufficiently large channels through which they can obtain dollars, every variation in prosperity in America will tend to be amplified in foreign countries.

With continuing prosperity in the United States and with assurances that we will pursue a liberal trade policy, other countries would gradually find it to their interest to stabilize with the dollar. Stable exchange would then give them not only the advantages of closer economic unity with a vast trading area but would also give them a reasonable degree of internal stability.⁴ Presumably provisional and experimental rates would be maintained until each country discovered for itself what rate it could hope to maintain permanently, consistent with its own prosperity. One of the chief merits claimed for the Bretton Woods proposal is that exchange parities would be determined by general agreement. But a country cannot decide what parity is appropriate until trade conditions are more nearly normal. Furthermore, it can hardly be expected that an agreement would be kept if a country found irksome such parity as the Monetary Fund would approve. The only sound basis for determining parity is the self-interest of the country concerned. We need have no fear that the empirical search for appropriate parities will lead to competitive depreciation as long as prosperity is maintained. It is glutted markets that lead to competitive

⁴ While this is a first approximation to the truth, it would be explained if space permitted how internal stability for any country would depend partly upon the competitive position of its special products. Where a country finds a really serious drop in the demand for its principal exports there is a question whether it should struggle too hard to maintain exchange parity. True, one-crop communities inside the United States do not have this alternative, but then a part at least of the labor can leave the community. Such an opportunity does not exist to any appreciable extent for the labor of an entire nation. Stable average prices in the world market, however, would go a long way in meeting this difficulty.

depreciation and we may as well face the fact that this weapon of competition, or others of nationalistic character, will return to favor unless a more attractive alternative is offered. One need read only a few foreign comments to find this out.

For a considerable period we may find that some countries will maintain only provisional dollar stability and that others will prefer to stabilize with the pound sterling, which itself will probably maintain only provisional stability with the dollar. This government should raise no objection to such an arrangement. The British hesitate to become a member of the International Monetary Fund because they fear a recurrence of the "famine of dollars." Why, they ask, should they place themselves in a position where they cannot trade with Australia merely because they lack dollars? Can we in America say that their fears are groundless? It is for us to convince them with deeds that the sterling area and the dollar area can have a fixed rate of exchange with profit to both areas.

A question naturally arises about what part gold will play in a procedure of international monetary stabilization. In answering this question, one must realize that the American monetary system has actually been an administered system for many years. Gold has had only such connection with the expansion and contraction of monetary outlay as we have permitted it to have. There is little reason to suppose, therefore, that we shall not be free to follow such internal policy as we choose during the post-war period. Because of the tendency for a great part of the world's gold to gravitate toward the financial center, there is not likely to be a shortage for many years (barring serious inflation in the United States). The supply might become so large that it would be rather costly to hold, and then it would probably be advisable to deal with the matter in agreement with other

countries. But it must not be supposed that the United States can use variations in the gold content of the dollar as a means of controlling commodity prices. The manipulation of the price of gold by the sterling area during the thirties is not a case in point. The British were able to influence the sterling price of international commodities by changing the dollar-sterling rate simply because those commodities had partially independent prices in the gold area. But the United States would find no independently determined set of prices in terms of gold. Thus there can be no substitute for appropriate internal policies directed toward controlling money outlay or aggregate demand. Our position gives us a great deal of independence with regard to our internal monetary policy, but, precisely because the value of gold is so largely determined in the United States, we cannot hope to regulate our commodity prices by varying the gold content of the dollar.⁵

VI

WHAT WILL DO MOST to solve our international trade and monetary problems is not new international machinery but an appropriate set of policies and our acknowledgment of America's responsibilities as the leading financial center. Whether we like it or not we have the responsibility of maintaining economic stability not only in America but in the whole international economy. Other countries may thwart us to some extent if they do not co-operate, but on the other hand they cannot restore the world economy without our leadership.

Let this country announce by some formal action, therefore, that we propose to maintain a stable currency (no matter what the gold problem may be); and that we will afford trade outlets to other countries so that there will be

⁵ This does not mean that we could not affect prices by varying the gold value of the dollar within very wide limits. But such price changes would not be under control.

no repetition of a famine of dollars. Furthermore, we must assure the other countries that regardless of the resort elsewhere to currency depreciation, exchange rationing, and other implements of economic nationalism, this country will not use them. This is the one country on earth which cannot follow such policies without destroying the international economic order. And indeed we can have no need for such weapons, for we may be sure that other countries will buy from us if we furnish them with the means of doing so—that is, by buying from them. We can have no shortage of international purchasing power for the simple reason that we can pay in dollars, the money which is international reserve money to other countries.

It is for us soon to choose whether we will provide the necessary leadership for establishing a united world economy. Of course we must have the support of other countries, but it is more than doubtful whether the other countries can have a united economy without us. Without relative freedom of trade and monetary stability we may expect a further trend toward economic nationalism or the division of the world into special trading and currency areas, with each area becoming economically self-sufficient.⁶

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⁶ For an excellent discussion of the official monetary plans, as well as international monetary problems generally, see John H. Williams, "Postwar Monetary Plans," (second ed., New York, Knopf, 1945). For an able defense of the Bretton Woods proposal, see Harry D. White, "The Monetary Fund: Some Criticisms Examined," *Foreign Affairs*, Vol. xxiii (January, 1945); and E. M. Bernstein, "A Practical International Monetary Policy," *American Economic Review*, Vol. xxxiv (December, 1944). A good bibliography on "Post-War Currency Plans," prepared by Laura S. Turnbull, has been issued by the International Finance Section of the Department of Economics and Social Institutions at Princeton University.

Monetary Policy in the United States in World War II

By CLARK WARBURTON

MONETARY POLICY, as the term is used here, is defined as government policy relative to the creation of money, both for replacements of units of money which may be extinguished and for additional units of money which may be needed in the economy. The term therefore has direct reference to the volume of money and to government action, including central bank action, relative to the volume of money. Monetary policy, thus understood, comprises the action of the Federal government in pursuance of the duty of "regulating the value of money," imposed upon Congress by the Constitution, with the word *value* interpreted as the "exchange value" or "purchasing power" of the monetary unit rather than the narrow meaning of the amount of gold with which it is linked by the price of gold.

In using the term "policy" with reference both to the volume of money and to the regulation of its value, I am obviously accepting the general proposition that the value of money depends upon its quantity. This does not mean a belief that the value of money depends solely on its quantity, nor that a permanently fixed volume of money would result in a stable value of money. The quantity theory of money, as used here, means only that changes in the volume of money which are not in accord with changes in the need for money tend to alter the value of money. This is the simple assumption which is involved in all discussions of the dangers of inflation and of deflation, respectively, and is merely an application to money of the general principle of demand and supply. In this broad sense the quantity theory of money is accepted by all schools of monetary thought, and is implicit in all discussions of inflation and monetary problems.

To describe monetary policy it is necessary to start with a reasonably clear-cut definition of money, and to apply the word "policy" to such a definition with sufficient precision to avoid confusion of meaning. "Money" is defined here in accordance with its broad, general usage to include whatever metals, government obligations, and bank obligations are customarily used as means of payment and thus constitute the active circulating medium or are commonly held for such use at a later time or in an emergency. This definition is in accord with that of traditional eco-

conomic theory as expressed in the dual function of money, as circulating medium and as store of value.

The writer recognizes the difficulty, even with this definition, of drawing a clear line of demarcation between government and bank obligations which should be classified as money, and those which are best classified as income-earning assets convertible under certain conditions into money. In view of the necessity of drawing a line of demarcation which has a reasonable degree of consistency over time and over the various regions of the country and which is practically usable in terms of available data, the word "money" is applied to the total amount of currency and bank deposits held or owned outside of the banking system. As a practical measure of the total volume of money we accept the Federal Reserve series, "Total deposits adjusted and currency outside banks," plus "Treasury cash holdings" and "Treasury deposits with Federal Reserve banks," minus the \$1,800 million held in the exchange stabilization fund.

In the past many different instruments or techniques of monetary policy have been used. It is not necessary here to discuss these various techniques nor their relative importance or efficacy. Since the establishment of the Federal Reserve System the dominating elements in monetary policy have been the required reserve ratios for Federal Reserve member banks and the volume of reserves provided those banks by the operations of the Federal Reserve banks.¹ With specified reserve requirements, a change in the volume of reserves is a change in the volume of money which member banks are authorized to create. A given amount of excess reserves constitutes an authorization to create a given amount of money in addition to the amount already in existence.²

However, effective monetary policy—that is, effective policy regarding the volume of money—may differ somewhat from the formal policy embodied in the amount of reserves furnished member banks. At least five modifying influences must be taken into consideration in appraising the

¹ The volume of reserves provided to member banks is determined by the amount of assets of the Federal Reserve banks in excess of the amount of currency in circulation (other than silver certificates and Treasury notes), capital accounts of the Federal Reserve banks, and government and foreign deposits in those banks. The volume of reserves provided member banks therefore depends directly upon Federal Reserve open market operations, and other changes in the amount of assets of the Federal Reserve banks.

² "Upon the adequacy of reserves hinges the power of banks to expand loans and investments and therewith to expand deposits. Upon reserves also hinges the power of the Federal Reserve authorities to influence the credit policy of the member banks," Board of Governors of the Federal Reserve System, *The Federal Reserve System—Its Purposes and Functions* (1939), p. 40. See also the discussion of the function of reserves in "Banking Studies," written by members of the staff of the Board of Governors of the Federal Reserve System (1941), p. 33.

effective monetary policy which is embodied in Federal Reserve action regarding the volume of reserves provided to member banks. First, the effective authorization to member banks to create additional deposits or money is always somewhat smaller than the formal authorization expressed in excess reserves, for the reason that reserves are used in transmitting regional payments and for paying Federal Reserve banks for currency and member banks find it desirable to keep some excess reserves to meet these needs. Second, the operations of banks not members of the Federal Reserve System must be taken into account in estimating the monetary expansion effectively authorized by the excess reserves of member banks. Third, even when permitted by excess reserves, monetary expansion may be limited by other legislative or supervisory requirements, such as a maximum ratio of deposits to capital. Fourth, a measurable lag is to be expected between a change in the volume of reserves and the adjustment of bank loans and investments and of their deposits to the change in reserves. This is particularly true in the case of monetary expansion, since the leading banks in any expansionary movement tend to lose reserves, and a portion of the deposits created by their own expansion of loans and investments, to other banks in the same community and to banks in other parts of the country.³ Fifth, announcements may be made regarding future policy with respect to the volume of reserves which will be supplied member banks.

During the present war the character and force of the factors modifying the effectiveness of monetary policy expressed in the volume of reserves provided to member banks have undergone considerable modification. On the one hand, legislative and supervisory requirements regarding the relation of capital to deposits have been suspended; while on the other hand, the regional flow of payments has been profoundly altered by the locale of Federal government expenditures and of its borrowing and has produced a longer than normal time lag between authorization to commercial banks to expand the volume of money and the full response to this authorization. Of much more importance, however, is the fact that new techniques of monetary policy have relegated the volume of excess reserves to a position of comparative insignificance. The volume of reserves actually provided to member banks at a given time is no longer an expression of the volume of money the member banks are authorized to create.

Since the Spring of 1942 the principal element in central bank policy has been the fixed buying rate on Treasury bills. Under this policy, as has been

³ The nature of this lag and the interbank relations which produce it have been most adequately described by Chester A. Phillips in "Bank Credit," New York, Macmillan, 1920, reprinted 1936.

stated in the *Federal Reserve Bulletin*, "member bank reserve needs are almost automatically supplied, with the initiative being taken by the member banks rather than by the Federal Reserve System."⁴ The importance of this policy lies in the fact that in effect it authorizes the member banks to purchase whatever volume of United States government securities they may desire, or to purchase other securities or to make loans, provided that among these securities they acquire enough bills to exchange at Federal Reserve banks for whatever additional reserves may be needed because of the accompanying expansion of deposits. That is, the formulation and execution of monetary policy (defined as policy with respect to the volume of money) has been turned over to the commercial banks with a blanket authorization to produce as much wartime monetary expansion as they find profitable. The traditional method of giving such an authorization to commercial banks would have been open market purchases of United States government obligations by the Federal Reserve banks in a volume sufficient to maintain throughout the war a very large amount of excess reserves, thus giving the banks continuous encouragement to expand their deposits and their loans and investments. The Treasury bill technique gives the same encouragement to rapid monetary expansion but in a less obvious manner.

Whether this encouragement of rapid monetary expansion is deliberate or unintentional is a question on which the writer of this article has no information or opinion. However, in view of the fact that the *de facto* character of monetary policy since early 1942 has not been adequately described either in official literature or elsewhere, the following description of its operation is given here. While the fixed buying rate on Treasury bills has been the primary technical element in this policy, several other developments have had significant collateral influence. These other aspects or "instruments" of policy have been: (a) the establishment for the duration of a fixed "pattern" of interest rates on United States government obligations; (b) the character, particularly the differential rates according to maturity, of that pattern; (c) Federal Reserve market operations for the purpose of maintaining the "pattern" of interest rates; (d) the volume of offerings of the various types of securities, particularly of the types desired by commercial banks; (e) the discount rate of 1/2 of one per cent on advances to member banks secured by United States government obligations maturing or callable in one year or less;⁵ (f) the announcement by

⁴ *Federal Reserve Bulletin*, July 1943, page 592.

⁵ *Annual Report of the Board of Governors of the Federal Reserve System*, 1942, p. 20; and *Federal Reserve Bulletin*, August 1944, p. 749.

bank supervisory authorities that banks would not be criticized for purchasing United States government securities, or making short-term loans to customers to facilitate such purchases, regardless of the amount purchased;⁶ (g) the elimination of reserve requirements on bank deposits to the credit of the Federal government arising either from purchase of Federal government obligations by the customers of banks or from the purchase of such obligations by the banks; and (h) the admonition to Federal Reserve member banks to keep their reserves fully employed.⁷

The procedure through which the foregoing policies result in a rapid monetary expansion, with no announced or apparent ceiling, is as follows:

(a) As the public buys government securities during bond drives the checks drawn by customers in payment therefor are credited to United States government accounts in the various commercial banks.

(b) This process automatically results in reducing required bank reserves and in giving the banks excess reserves until the Treasury, in accordance with a schedule, transfers these deposits to Federal Reserve banks and then uses them in payment for purchase of war supplies and other governmental expenditures.

(c) The desire of profit-making institutions to increase their holdings of interest-bearing investments, together with their excess reserves and the admonition to keep reserves fully invested at all times, encourages the banks to purchase during the bond drives, and between them, a large volume of United States government obligations. Such purchases are made directly from the Treasury to the extent permitted, otherwise from nonbanking holders of securities previously issued.

(d) The same circumstances encourage the banks to loan money to their customers to make purchases of United States government obligations, perhaps in excess of the amounts that those customers think they will be able to keep.

(e) Neither (c) nor (d) adds immediately to reserve requirements but both tend to increase future reserve requirements of the banks. This increase in reserve requirements shows up several weeks or months later—after the newly created deposits have been transferred to the Treasury account in Federal Reserve banks, have been then spent by the Treasury, and have therefore returned to bank customers other than the United States government.

(f) Fear that this future need for reserves may be difficult to meet is eliminated by the announced policies of Reserve bank purchase of Treasury bills at a fixed rate and of a fixed rate on loans to member banks secured by short-term government securities. So long as these policies continue any bank can purchase any volume of United States government securities for its own account, or can loan any volume of money to its customers to do so or for any other purpose, without fear that any additional reserve

⁶ *Annual Report of the Board of Governors of the Federal Reserve System*, 1942, p. 21.

⁷ *Federal Reserve Bulletin*, June 1943, p. 492.

requirements produced by the expansion of deposits will cause embarrassment, provided that the securities which the bank itself purchases include a due proportion in the form of Treasury bills and other short-term government obligations.

The war program, of course, required a substantial degree of monetary expansion, because of the great increase in the volume of production—though this need is not proportional to the expansion in production, because of the more economical use of money (*i.e.*, smaller holdings of cash balances relative to expenditures) by the Federal government than by individuals and enterprises. This desirable amount of monetary expansion in wartime should be accomplished by acquisition of the requisite amount of government securities by the banking system. The program of war finance therefore properly included the expectation that commercial banks would purchase a part of the securities representing Treasury borrowings to meet war costs.

However, in most discussions of war finance the amount of United States government securities which it is assumed should be purchased by the banking system is not related to the desirable amount of monetary expansion. Rather, it appears to be assumed that the commercial banks must be ready to take whatever part of the obligations issued by the Treasury is not sold to nonbanking sources, and that in practice the amount of such obligations purchased by commercial and Federal Reserve banks represents the residual after sale to nonbanking investors of as large a volume as possible. Such an assumption presumably underlies the passivity of the Reserve authorities and their willingness to create whatever volume of reserves member banks wish to have. This view of the banking and monetary process, in the opinion of the writer of this article, misses completely the actual relation between the portion of the obligations issued by the Treasury which is taken by nonbanking investors, on the one hand, and the portion taken by the banking system on the other. It is the former, not the latter, which has the character of a residual. This situation arises from the fact that the volume of government obligations purchased and kept by nonbanking investors depends on the terms which they are offered, and the commercial banks, with their blanket authorization to buy those securities with newly created money, have been in a position to offer prices which bid the securities away from nonbanking investors.

Since the wartime governmental policy does not place a limit on the rate or extent of monetary expansion through bank acquisition of United States government obligations or other loans and investments, the question arises

as to why the commercial banks have not brought about an even greater degree of monetary expansion than has occurred. The forces limiting the rate of monetary expansion during the past two years appear to be three: lack of understanding of and uncertainty regarding future Federal Reserve policy, the regional flow of payments, and the tradition among bankers that they should keep some assets available for instant use in meeting loan requests from their customers or in taking advantage of any unusual loan or investment opportunities.

With regard to lack of understanding of Federal Reserve policy, many bankers, particularly those operating small and medium-sized institutions, have doubtless failed, like most commentators on wartime monetary policy, to realize the significance of Federal Reserve policy. Their participation, therefore, in the expansionary policy is a delayed one which appears after they have received (through the flow of payments) and have held for some time in the form of increased deposits accompanied by excess reserves or due from banks a portion of the monetary expansion produced by other banks' purchases of United States government securities. Uncertainty regarding future Federal Reserve policy is most important, of course, in the case of banks which are not members of the Federal Reserve System, but those member banks the officers of which peruse most carefully the literature coming into their hands must realize that no commitment has been made to extend into the postwar period the present policy of unlimited authorization to create more deposits.

The regional flow of payments, and the fact that in a particular community the bank which leads in expansion will tend to lose some of the deposits it creates to nearby banks, both tend to make the leaders in an expansionary movement lose reserves and interbank balances to other banks. This loss, even though those reserves can be recouped by selling Treasury bills to the Federal Reserve banks or borrowing from those banks on short-term government securities, tends to keep the leaders in the expansionary movement from getting too far ahead of the rest of the banks. This limitation on monetary expansion, like that resulting from lack of understanding of and uncertainty regarding Federal Reserve policy, does not, of course, offer any final stop to the amount of government obligations which can or will be bought by the banking system and thus does not provide any limit to the extent of wartime or postwar monetary expansion. These circumstances mean only that the rate of monetary expansion is limited by the interbank relations described years ago by Chester A. Phillips.⁸

⁸ *Op. cit.*

The tradition among bankers that they should keep some assets available for instant use in meeting loan requests from their customers, or in taking advantage of any unusual loan or investment opportunities, arose when bank reserves were not readily replenished. Prior to the introduction of the Federal Reserve System bankers frequently found themselves handicapped by deficient reserves in meeting unusual needs of their customers or in taking advantage of unusual loan opportunities. While this situation was nominally removed by the rediscount privileges of the Federal Reserve System, the experience of member banks subsequent to World War I and during the great depression made them aware that essentially the same condition exists whenever the Federal Reserve authorities show a disposition to hold down the volume of reserves. The old tradition therefore has persisted in the form of a belief that it is good policy to hold a certain volume of excess reserves. This tradition has reinforced the delayed reaction of the banks to the unlimited authorization to create more deposits which has been given them since the Spring of 1942.

Taken together these factors have limited the rate of acquisition of United States government obligations by commercial banks, and in conjunction with the established pattern of interest rates have limited the premium which the banks have offered nonbanking investors for their holdings of United States government obligations. It remains true, nevertheless, that the total amount of United States government securities issued during the war has been divided between the banks and nonbanking investors primarily by the policies of the banks. The banks have taken an amount determined by themselves and nonbanking investors have taken, or rather, have kept, the rest. It is also true that the amount of government securities purchased by the banking system has not been limited to any specific amount they were expected to purchase under the government's program of war finance. What they were expected to purchase, so far as announced policies state this expectation, was what the nonbanking investors did not take; what they did purchase was what they felt it desirable, under the limitations mentioned above, to purchase.

These *de facto* limitations on monetary expansion are not the proper kind of limitations, even in wartime, because they provide no criteria of how much monetary expansion is desirable or when monetary expansion should be slowed down or halted. Most commentators on wartime monetary policy have devoted little attention to the degree of monetary expansion needed in wartime, and have ignored the fact that an appraisal of this need, and of the corresponding need in the postwar period, could have been used

to provide an adequate monetary program without the danger of serious price inflation either during the war or subsequent to its close.

There is no doubt that we had a genuine need for a substantial amount of monetary expansion during the war, and that this need was greater than many economists would have estimated at the beginning of the war, for the reason that the ability of our economic system to expand the volume of production was underrated. It is the error in forecasting the feasible degree of expansion of production, together with the practical limitations on the rate of monetary expansion mentioned above, which made the monetary expansion which occurred in 1942, 1943, and 1944 less serious than might have been expected to result from the authorization of unlimited monetary expansion. However, the prospects are not good for continuation, without undue price inflation, of the policy of unlimited monetary expansion.

It is inconceivable that central bank policy can go on forever with apparent disregard for its consequences in price inflation. When the time comes—as it inevitably will through the political pressures created by rising prices, if it does not come sooner in some other way—that the central bank authorities are impelled to withdraw their blanket authorization to commercial banks to create an unlimited volume of money in the form of bank deposits, the nation will again be faced with a banking “crisis,” the character and dimensions of which cannot be forecast, but which may be so serious as to rock the foundations of the economic system.

McLean, Va.

Farewell to the Good Old Times

NUNC EST BIBENDUM, Horace wrote. Actium had crushed Antony's sea power, and the baleful queen Cleopatra was dead, with all her plots against Rome. The good days were back again, the days of splendid country places with charming hosts and hostesses eager to entertain good poets and bad for weeks on end; the days of simple, corrupt politics, of well-disciplined slaves, of art collecting, book collecting, of brilliant Roman mornings and calm sunsets.

The truth was, the good old days were not destined to come back. Eastern victories had shifted the focus of Roman policy. The rich cities of the East, from Syria to the Ganges, lay open to Roman arms. Why waste blood and treasure chasing Britanni around in the cold gray mists, why wade through the swamps and forests of Germany in pursuit of half naked barbarians who did not even make industrious slaves?

Actium, not Varus' disaster in the Teutoburger forest, produced the policy of bottling up the Germans by garrisons on the Rhine and the Danube. The new Rome was launched on her career of unbounded wealth and insane luxury.

The good old times never return after a great war. Western Europe was never the same after the French Revolution and the Napoleonic wars. Our own country was never the same after the War between the States. After World War I the old Germany, the old France, were to be found only in forgotten villages of the Black Forest and the Vosges. Where was the old U.S.A when Wall Street piled Pelion upon Ossa in its brave assault upon ancient Fate? The good old times of the speculating office boy, of the apple vendors, of the rampant foreclosed farmer are gone forever.

But things can be better, infinitely better. Look around you: the building material for a better order lies ready for the using. If we apply brave good sense to its ordering, if instead of day dreaming ourselves into the past we plan for the future, an incredibly rich life is at our command. We have the brains to achieve miracles: the war has shown that. Is there any reason why we can't apply our brains to the peace?

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Judaism and the New World Order

Human Equality and Social Reconstruction

By LEO JUNG

IN THE QUEST for happiness, magic has had its day, philosophy its period, and science its epoch. With all its humanistic values, with all the insight of Freud, with all the aid to metaphysics of Bergson, and with all the advantage of modern research, the failure of science in the field of human happiness by now has become a truism. As Dr. Hu Shih, the Chinese Ambassador to the United States, put it: "Science and Technology have made the world a physical unit. But Man's backwardness has permitted the present unprecedented catastrophe and has miserably failed to consolidate the physically unified world into a political and moral world-community."

The mark of the Hitler beast has well-nigh obliterated the proud signature of twentieth-century man. We have been boasting vociferously of the industrial revolution. It has brought us an endless multitude of gadgets. It has helped to free many men and women from drudgery. But it has resulted also in heightening the serious tension of life. It is but natural, therefore, that the harassed mind of the age discovers again the road to the comforts of religion. But religion, too, at least in its approach, has undergone a change. The thoughtful leaders among the various creeds have come to recognize that somehow or other mere doctrines, no matter how elevating or profound, do not offer the solace that the children of our time are hungry for. The din of social and economic frictions drowns out the sweetest hymns.

One's religious faith does shape one's attitude towards problems of general welfare. My purpose is not to discuss the relation of dogma or of any religious world view to human happiness, nor to what extent it may become the foundation of a new world order. This is not due to a denial of the influence of religious convictions upon man, but is dictated, rather, by a desire to show that it is primarily the practical principles of religion that are essential for rebuilding upon the ruins of today. Present ills are not due to any lack of general articulation of official religion in the affairs of the twentieth century. What seems to have been missing is a steady emphasis on the detailed working out of the great principle of social justice. As partial result thereof there is a noticeable hesitancy on the

part of a confused and deeply hurt generation to include the additional burdens of denominational calendars in the over-busy programme of its life.

It is paralyzing to see that the second World War—that unparalleled orgy of cruelty—failed to call forth a vast spiritual revolution. Stirred by a profound yearning for God, such a revolution should express the passionate conviction that the specter of Hitlerism, as the most gruesomely successful organization of evil in history, is a challenge, for all who believe in the ultimate decency of things, to plan, to act, to organize. To me as a Jew it is incomprehensible why organized Christendom has not been most determinedly in the forefront against the systematic annihilation of six and one-half million human beings. The cultural lag has been recognized by our century's sociologists and philosophers. We ought to be painfully conscious of such failure in the halls of religion. Granted that the electrocution of faith so dramatically portrayed in O'Neill's plays has in its wake brought about a great deal of waste and corruption in the affairs of the non-religious or irreligious, shall we not concede with humility that a similar waste and mental or moral decline are to be noticed among the nominal adherents of religion?

The indifference to, or apostasy from, religion that we face today is due to the apparent unwillingness of organized religion to provide a program for grappling with the major problem of human unhappiness: the war between classes, nations and races. Concerning this, religion has not done enough. The majority of American believers in God has not been taught dynamically or sufficiently the basic postulate of religion, of being our brother's keeper. In the halls of science, scientific principles reign supreme. No matter how imperfect as a person the individual scientist may be, the objective examination of life is the hallmark of a scientific laboratory. In the halls of religion, though "Love thy neighbor as thyself"¹ is an accepted major principle, there is a tremendous lag in translating this command into concreteness. Because I believe in the vital rôle which religion can and shall play in the effort for a better world, it seems important to state the ideas, the practices, paragraphs of law, and institutions of corporate life by which Judaism and the united nations of the world, in conformity with the behests of religion, would bring about the alternative to enduring darkness and barbarism.

The New World Order is viewed as a step towards the era when God will be recognized by all humanity as the Lord of the universe. Yet, the New World Order may in itself spell the realization of the hope of the Hebrew

¹ Lev. XIX, 18.

Prayer Book that "Thou wilt remove the abominations from the earth; when the world will be perfected under the kingdom of the Almighty, and all the children of flesh will call upon thy name, when thou wilt turn unto thyself all the wicked of the earth. . . . And it is said, And the Lord shall be king over all the earth: in that day shall the Lord be One, and His name One."

Many of the principles and methods described in this essay have been proclaimed in the long ago. Some of them have been known in practice as well as in theory. What we hail as the positive cultural assets of our age often can be traced back to the Hebrew Bible. In the American scene in particular it is not difficult to find heartening reiteration and, especially in matters of national laws or legal attitudes, frequent definite concretization of religious convictions.

Basic to the New World Order is the extension of the concept of human equality from the political to the economic realm.

I

Human Equality in the Bible

THE BIBLE COMMENCES ITS ACCOUNT with the creation not of the first Hebrew, but of the first man. Genesis describes him as created "in the image of God"² and dowered with earth's riches. Exodus includes him as "fellow-man" in the history of Israel's emancipation from slavery.³ Leviticus insists in regard to this fellow man: "Thou shalt love him as thyself," or, according to another interpretation (grammatically more acceptable): "Thou shalt love him: he is as thyself."⁴ Until the time of the Bible there were masters and slaves, relatives and strangers, natives and strangers; there was no 'rea' or fellow man. "One statute for the native and the stranger"⁵ and "The stranger that sojourneth with you shall be unto you as the home-born and thou shalt love him as thyself"⁶ strengthen this teaching. The framework of Mosaic legislation, though placed in the Jewish Commonwealth of Palestine, is universalistic in its principles of justice and love. The first Hebrew, Abraham, was to become "a blessing to all the nations of the world,"⁷ and the last of the minor prophets proclaims: "Have we not all One Father, hath not One God

² Gen. I, 26.

³ Exod. II, 2.

⁴ Lev. XIX, 18.

⁵ Nu. XV, 15.

⁶ Lev. XIX, 34.

⁷ Gen. XII, 1.

created us?"⁸ With the creation of *one* man commences human history that none, as the rabbis put it, may vaunt himself superior to any fellow-man.⁹ "Are you not even as the children of Ethiopia unto me, O children of Israel? Have I not brought up Israel out of the land of Egypt, even as the Philistines from Caphtor, and Aram from Kir?"¹⁰ And with the unity of man established by man's wisdom and justice ends the vision of the latter days "when they will not do evil nor deal corruptly on all my holy mountain but the earth will be full of the knowledge of God even as the waters cover the sea."¹¹

Rabbinic literature of Mishnah, Talmud, Midrash, the Hebrew liturgy—even before the days of Israel's great poets and philosophers—remained true both to that universalistic vision by implementing it in Jewish law. Before the term "religious tolerance" graced any dictionary, the rabbis proclaimed that "the saints of the nations of the world have part in the world to come"¹² even as the Jews,¹³ and admitted to equality before the law and to the benefits of social service any non-Jew who foreswore idolatry, murder, immorality, theft or robbery, cruelty to animals, and blasphemy, and who undertook to promote justice.¹⁴ It was that type of non-Jew who was to be fed when hungry, cured when sick, provided with burial when found dead and unattended, and who was accepted by God for eternal salvation.¹⁵ The Torah already had warned Israel not to abhor the Egyptian because "thou wast a stranger in his land."¹⁶ The rabbis included all the peoples of the world in the fellowship of man, even those whom the Pentateuch, because of their low ethical level or because of their inhuman treatment of the nascent nation had excluded, for "when Sanherib came he mixed up the nations."¹⁷ Through this melting-pot their concentrated ill-will or savagery is presumed to have been sufficiently diluted to render the condemnation no longer valid. These ideas had long ago become part of the common consciousness of Israel, and as the recurring refrain of its sentiment, were found in its books of law, in its poetry, in its books of pious meditations. Thus the Midrash Tanna de be Eliyahu contains this

⁸ Mal. II, 10.

⁹ Midr. Rab. ad loc.

¹⁰ Amos IX, 7.

¹¹ Isaiah XI, 9.

¹² Sanh. 106a.

¹³ Mishnath R. Eliezer, p. 121.

¹⁴ Sanh. 108b.

¹⁵ Gittin 59a.

¹⁶ Deut. XXIII, 8.

¹⁷ Berakh. 28a.

declaration: "I call heaven and earth to witness that whether it be Jew or heathen, man or woman, freeman or bondman, only according to their acts does the divine spirit rest upon them,"¹⁸ and in the darkest of the Middle Ages, Solomon ibn Gabirol, the Avicbron of the scholastics, philosopher and hymn-writer sang: "Thou art the Lord. All beings are thy servants, thy domain. And through those who serve idols vain, thine honor is not detracted from. For they all aim to thee to come."¹⁹ The consciousness of universal human brotherhood had permeated also the ceremonies of Israel, with suggestions to the adolescent child at the home service, to the congregation at worship, to the scholar poring over the tome.

A single instance ought to suffice.²⁰ Most people suffer from a lack of social imagination. That is why there is such widespread lack of human sympathy. The Jew receives this message through a ceremony at a moment when, without this reminder, he might be exclusively nationalistic.

The Passover eve service is dedicated to recalling the suffering of Israel in Egypt and the Jew's deliverance from under the heel of the Pharaohs. At the beginning of the evening the Jew pronounces the ceremony of Kiddush, the blessing of sanctification, over a full cup of wine, which is the symbol of happiness, going back to the Biblical expression, "the cup of my salvation is full." This ceremony ushers in every Sabbath and festival. When in the course of this service reference is made to the ten plagues, a full cup of wine is taken, and at the mention of each plague, a little wine is poured from the full cup. The children, for whose benefit the service is arranged, are encouraged to ask the meaning of this ceremony and they receive the answer, "Tonight we make a blessing over the full cup of wine because we recall God's redemption of His people from the oppressor and our hearts are filled with joy and gratitude. But our cup of happiness cannot be full as we read the tale of the ten plagues inflicted on the Egyptians, who, too, were God's children. And so we spill some of the wine whenever mention is made of a plague." The humanizing influence of this ceremony at this moment can scarcely be exaggerated—it is an unforgettable lesson in good will.

As an illustration of the divine command, "Love thy neighbor as thyself," the Torah brings forth the principle of the foreigner's equality before

¹⁸ XLIV.

¹⁹ See J. H. Hertz, "Pentateuch and Haftorahs," s. v.

²⁰ See the writer's "Major Aspects of Judaism" in "Judaism in a Changing World," and cp. note 83.

the law; and lays down the duty to help the poor and to take care of the stranger. Such good deeds, not dependent upon a man's mood, but representing the legal minimum of his contribution to social welfare, is the first step towards the accomplishment of that ideal. The obligation to care for the non-Jewish poor as well as for the Jewish destitute tended to make these steps more valuable, to train the Jew in a humanitarian outlook.

II

Ethical vs. Church Universalism

THE REPRESENTATIVES of the majority religion when they speak of human unity do not always distinguish between the principle of moral universalism as against that of church universalism. Under the former every believer in God, independent of his denominational affiliation, is considered capable of eternal salvation. For worship of the Heavenly Father is then viewed as an orchestration in which every religious group plays its instrument. Under church universalism the individual cannot achieve salvation except in the bosom of the church. Once such church universalism is laid down, sub-division of the human family comes automatically and further divisiveness follows as the night the day: Protestant versus Catholic salvation, and the further atomization in the hundreds of denominations, each of whom claims the possession of the key to heaven. It should be noted, however, that the Catholic Bishop Bonomelli in one of his books^{20a} asserts that the invisible church admits *salus extra ecclesiam* and that the heathen or unbeliever may through supernatural grace attain eternal life. Judaism,²¹ eighteen hundred years ago, made a definite statement. No matter what is the individual's dogma or creed, as long as God is the center of his belief and the standard for his practice, he enjoys before the altar of Moses and Israel equality of worth and brotherhood of civic rights as of moral purpose. Judaism has thus agreed to disagree in matters theological, recognizing the value and dignity of the individual even outside the synagogues and extending to him, in the name of God and His first sanctuary, the natural right to serve his master in accord with his own conscience.

There has been at least a considerable uncertainty as to the Church's attitude on this matter.²² To some extent, undoubtedly, this doubt has

^{20a} "The Doctrine of Hope," Burns, Oates & Washbourne, Ltd., London 1921, p. 155. (I owe this reference to Father J. Elliott Ross, S.T.D.)

²¹ San. 108b.

²² See "The Question Box" by Rev. B. L. Conway of the Paulist Fathers, new ed. 1929, pp. 216-18 and 222.

alienated many a Christian's fealty as it has increased the uneasiness of non-Christians. An authoritative, unequivocal statement would do untold good to both. Would, e.g., the hundreds of millions of Moslems be included in the scheme of salvation? Will the church, mighty protagonist of the religion that allows love the primacy, extend this blessing to outsiders, recognizing human unity in God; or will membership in the Christian Church, for man individually and humanity collectively, be insisted on as a prerequisite for the attainment of the principal natural equality in religion and life? The answer to this question is basic to the New World Order and especially to the rôle religion may be expected to play therein.

In order that organized religion achieve its social purpose it is essential not only to re-emphasize in the clearest and broadest form the universal principles which guide it, but to distinguish also between the forces of irreligion and the causes which have made this generation veer from the ancient moorings. Every revolution is an indication not only of "the rebels' wickedness and folly" but of something wrong in the *status quo*. It is some basic flaw in the structure of its contemporary society that provides the dynamic of every revolution. It is not deep thinking that sets people against religion. Neither is it the manipulative use by Plato and some modernists of this sacred institution that brings people back to its pastorate. (The old sport of taking a watch apart to see what makes it tick, independent of an ability to put it together again, has its 1945 model.) Of course, there are some persons unsynagogued or unchurched because their genius for analysis transcends their capacity for synthesis. But the momentum of modern dissent is to a considerable extent due to the failure of organized religion to present a factual demonstration of, or even a general disposition toward, true love, forbearance, tolerance for peace, and passion for the under-dog. Too often has it seemed to spell but fashionable respectability. It has gone hand in hand with reaction; it has been found inarticulate in the presence of the normal phenomenon of mass misery as against heartbreaking luxury. To search for the religious foundations of the New World Order, means to re-examine the opportunities and chances of one's faith. Such effort implies the desire to win back the unchurched. To achieve that we need not only self-criticism on the part of the teachers and leaders of organized religion but a complete ethical about-face. To many a man living in stark poverty and offered but the "spiritual" compensation derivable from the privilege of considering every outsider a sure victim of unending hell, has come the doubt in the wisdom and the goodness of the religion he has been taught. The social gospel preaching

as a major task the alleviation or abolition of human misery has been much more forceful of late, and is an indication of a growing awareness among the clergy.

Wherever there will be manifested a sustained dynamic, and thoroughly consistent, interest in the improvement of the lot of the common man, in America, Canada, Scotland, England and elsewhere, there the foundation will be laid of a return to God. As for the college youth and the pious and questioning (these terms are by no means contradictory) mature persons, they will be encouraged to seek the way back to organized religion, to the extent to which its representatives will reduce denominational squabble to a minimum, and engage in the real supreme work of all disciples of the Lord: the promotion of peace and good will among all His children.

Recognition of human equality is of paramount need not only among the citizens of any State or country independent of geographical or any other differences, but especially among the adherents of the various religions. Not only will such practical acknowledgment in no manner reduce the importance of any denomination to its own members, but by conveying the sense of the core of all religion—brotherhood of man under the Fatherhood of God—it will immeasurably strengthen loyalty to one's own creed and thus the forces for good and the influence of religion. In the affairs of the common individual man (in whom every religion, by its spiritual constitution, must profess special interest) it will emphasize, past cavil and doubt, the all-importance of spiritual grounding and the vital meaning and value of local patriotism. Surely, in the minds of its most thoughtful members, the individual church group would surrender part of its organizational sovereignty for one purpose only: to advance its end and all, the acceptance in theory AND practice, of the sovereignty of God. The Hebrew prayer book again has offered precious precedent. In their daily adoration the Jews say: "To Thee bends every knee, by Thee swears every tongue."²³ Now the interpretation is perfectly valid which recognizes in this passage the awareness that even the savage groveling before his grimacing idol in truth is but seeking God. But the obvious meaning, embracing every worshipper of the divine Father, is eloquent enough. The texts by which the religious life of the pious Jew is guided, have made this principle very clear: "Every pious person in the world has, in truth, imbibed the milk of Mother Sarah."²⁴ Whosoever rejects idolatry

²³ Standard Prayer Book, p. 94.

²⁴ Pes. Rab. XLIII ed. Friedman 180a. See also Ohel Yakov by the Dubna Maggid, Pressburg ed., 28b2. Mekh. de R.S.B.Y. ed. Hoffman, p. 104 and R. Moses Hefetz in his Mel. Mahash. 95a 2 (These references I owe to Prof. Joshua Finkel.)

resembles him who observes the whole Torah.²⁵ It is significant that the "pious people" referred to were the "foboumenoi" or "sebomenoi," non-Jews who revered the Lord but did not practice Jewish law. Spread all over Greek and barbaric cities, these proselytes of ethical universalism under God are described as having sent gifts to the Temple in Jerusalem, which were accepted there.²⁶ Maimonides, the great religious leader of the Middle Ages, explains that because the "ways of Torah are ways of pleasantness and all her paths are peace,"²⁷ all its legislation is meant to promote human welfare for "His tender mercies are over all His works."²⁸ Hence even the heathen shall be treated humanely, fed if hungry, cured if sick, and provided with a grave when found dead and unattended.²⁹ Throughout rabbinic literature, even during the years of ceaseless cruel persecution, the refrain of these words was always heard.

The thirteenth century moralist Jacob Anatoli stated "We are not so foolish and arrogant as to claim that we alone possess a portion of God's spirit. We shall not fall into the error of those supercilious non-Jews who insist that they alone breathe the breath divine, and that a Jew has no soul. We believe that the image of God is indelibly stamped upon all men."³⁰

The seventeenth-century great Rabbi Jonathan Eibenschutz considers the promotion of good will between Jews and non-Jews a major individual and communal obligation.^{31, 32}

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New York*

²⁵ B. Meg. 13a.

²⁶ Jos. Ant. XIV, 7, 2. Con. Apion II, 39 f.

²⁷ Prov. III, 17.

²⁸ Ps. CXLV, 9.

²⁹ Maim. Hilkh. Mel. VI, 12.

³⁰ Conn. on Par. Tsav.

³¹ In the preface to his "Urim ve-Tumim."

³² [This essay is the first of several on this subject by the author.—EDITOR.]

The Real Failure of Capitalism

THE STANDING ARMY of soldiers, like the standing army of bureaucrats, is only another thong in the harness of servitude which we must bear when we exchange our priceless heritage of individual freedom for the dull security which we may have as wards of an all-powerful government. The objection is frequently made that the great mass of workers had precious little individual freedom under the capitalistic factory system. There is an unfortunate degree of validity to the objection but in an attempt to give a partial answer to it, I shall invite you to go back with me to South America.

There, except for the few remaining isolated tribes of mountain or jungle Indians, you will find a large percentage of people living under a local variant of an ancient economy based upon agriculture and home craft products. It is essentially a feudal system inherited from the 15th century Spain and dependent upon the soil which belongs almost entirely to a little group of wealthy landowners. Each landowner is lord over a vast domain within which workers and cattle are equally dependent upon him for sustenance. It is a community organized for the luxurious existence of one man, the landlord, and for the barest subsistence of all others. It may almost be said that in these communities cattle and workers enjoy equal rights—except that the cattle in most cases are apt to be the more highly prized and therefore the better cared for.

However heavy the restraints which are placed on the common man, capitalism nevertheless elevated him to a higher standard of living and a finer state of freedom than he has known since the dawn of history.

Here we must make our most serious indictment of capitalism. While it improved the common man's material existence and gave him much increased individual freedom, it foolishly and blindly shrugged off as irrelevant the task of teaching him what to do with his enlarged freedom and leisure. Capitalism made no serious, certainly no adequate, attempt to provide the common man with finer ideals and ethics, with a deeper appreciation of beauty, with higher cultural aspirations, with a more exalted philosophy or a nobler sense of justice and human responsibility. In brief, capitalism stuffed the common man's belly, but left his mind an ethical and cultural blank to be filled with such cheap trivialities as it might accidentally acquire by daily contact with other common men whose minds were similarly blank.

Pittsburgh, Pa.

A. ALLAN BATES

Henry George: The English Land Reform Campaign*

By ANNA GEORGE DE MILLE

I

Appeal to the People

ONE DAY when Henry George was walking with his son Richard he suddenly stopped and, with his head thrown back and his gaze upward, exclaimed: "Yes, I could die now!"

"Why do you say that?"

The boy's question jerked the father back to reality. "I was thinking," he explained, "that I could die now and the work would go on. It no longer depends upon one man. It is no longer a 'Henry George movement'—a one-man movement. It is the movement of many men in many lands. I can help it while I live; but my death could not stop it."¹

Although he believed it to be no longer a "Henry George movement," his adherents were not of his opinion. Those in England, members of the Land Reform Union, guaranteeing his expenses, demanded his presence. They became so insistent that, just before Christmas, 1883, he set sail. This time he took with him his older son, Henry George Jr., in the role of amanuensis.

When they reached England,² where they were met in Liverpool by Michael Davitt³ and Richard McGhee, M.P., George found that discussion of his "theory" was being carried on in many circles and among all classes. The sale of the Kegan Paul, Trench & Co. editions of "Progress and Poverty," plus the forty thousand copies of the sixpenny editions, had taken the book into all quarters. It had been discussed and "answered" by men of high scholastic standing, including Henry Fawcett, Professor of Political Economy at Cambridge, and Arnold Toynbee, Lecturer in Economic History at Oxford.

Upon his formal arrival in London, in January,⁴ the American was greeted by a large delegation from labor organizations, and from the roof of a "four-wheeler" he delivered an address, thanking them for their welcome and explaining his purpose in coming to England.

* Copyright, 1945, by Anna George de Mille. A section of a previously unpublished study, "Citizen of the World"; see *AM. JOUR. ECON. SOCIO.*, 1, 3 (April, 1942), p. 283 n.

¹ Henry George Jr., "Life of Henry George," New York, Robert Schalkenbach Foundation, 1944, p. 417.

² Dec. 31, 1883.

³ See Anna George de Mille, "Henry George: Social Problems and the Walker Controversy," *AM. JOUR. ECON. SOCIO.*, Vol. 4, No. 1 (Oct., 1944), p. 122.

⁴ Jan. 6, 1884.

Although George's campaign was being financed by members of the Land Reform Union, including Helen Taylor, William Saunders, Richard McGhee, J. L. Joynes, H. H. Champion and R. P. B. Frost, the last two mentioned, the one treasurer and the other secretary of the Union, strangely enough, leaned toward the doctrines of Karl Marx.⁵ George had promptly to make clear to these and a few other Socialists, who threatened to oppose his campaign if he did not adopt their program, that "while the ideal of Socialism is grand and noble,"⁶ he not only did not stand for the nationalization of capital, including machinery, upon which they harped, but that he did stand for the principle enunciated in his book: "that whatever savors of regulation and restriction is in itself bad, and should not be resorted to if any other mode of accomplishing the same end presents itself."⁷

Messrs. Champion and Frost, realizing that their American guest was adamant, quietly acquiesced in his program.

George's philosophy, actually more profound than that of Marx, is really simpler and therefore, on shallow study, may seem to "not go far enough." But by the strength of his stand he succeeded in silencing the importunings of all Socialists who tried to change his course—save a few disciples of Marx, including Hyndman.

Paradoxically, although differing in viewpoint so radically from them, it was George who gave the impetus to the Socialist movement⁸ that flowered from the Fabian Society. The Fabians acknowledged their debt. "My attention," says Bernard Shaw, "was first drawn to political economy as a science of social salvation by Henry George's eloquence and by his 'Progress and Poverty,' which had an enormous circulation in the early eighties, and beyond all question had more to do with the Socialist revival of that period in England than any other book."⁹

Sidney Webb gave similar testimony:

Little as Mr. Henry George intended it, there can be no doubt that it was the enormous circulation of his "Progress and Poverty" which gave the touch that caused all seething influence to crystallize into a popular Socialist movement. The optimistic and confident tone of the book, and the irresistible force of its popularization of Ricardo's Law of Rent sounded the dominant "note" of the English Socialist party of today.¹⁰

⁵ See Henry George Jr., *op. cit.*, pp. 422-3.

⁶ "Progress and Poverty," New York, Robert Schalkenbach Foundation, 1944, p. 321.

⁷ *Ib.*, p. 320.

⁸ The best analysis of the differences between Georgism and Marxism is in George R. Geiger, "George and Socialism," in "The Philosophy of Henry George," New York, The Macmillan Co., 1933, pp. 227 ff.

⁹ G. B. Shaw, in the "History of the Fabian Society," by Edward R. Pease, London, Allen and Unwin, Appendix I, p. 274.

¹⁰ "Socialism in England," American Economics Assn., Vol. 4, April, 1889, p. 18. Quoted by Geiger from another edition.

Although the first volume of *Das Kapital* had been written twelve years earlier, it evidently did not receive much attention until "Progress and Poverty" aroused interest in economics. Herbert Tracy says:

Discussion of economic theories was quickened by the publication in 1879 of "Progress and Poverty." . . . It had the same effect upon his [J. Ramsay MacDonald's] mind that it had upon other leaders of the working class movement; it enabled him to see what was wrong with the economic organization of society; it was the book of the American economist that focused the British mind on the need for social revolution.¹¹

Working over the same ground, H. Hessel Tiltman came to a similar conclusion:

Henry George's book indeed had more dramatic effect upon British political thought than any work published during the last century. It dominated the minds of the Radical wing of the Liberal party just as it galvanized into action those who had been groping towards a Socialist Commonwealth. It even achieved the undoubted feat of making Karl Marx a popular author, for chapters of *Das Kapital* were published and read as sequels of "Progress and Poverty."¹²

Marx himself conceded George to be a "writer of talent" but believed him to have "however the repugnant arrogance and presumption which inevitably mark all such panacea breeders."¹³ According to Hyndman, Marx had looked through "Progress and Poverty" and "spoke of it with a sort of friendly contempt; 'the capitalist's last ditch,' he said."¹⁴ The contempt was evidently reciprocated, for George wrote Hyndman that he considered Marx to be not scientific but "a most superficial thinker, entangled in an inexact and vicious terminology."¹⁵ He summed up his contempt when years later, he wrote to Thomas F. Walker: "as for Karl Marx, he is the prince of muddle heads."¹⁶

Be that as it may, George, upon his arrival in London in 1884, had to define his principles to another group in the Land Reform Union besides the Socialists.¹⁷ He had to reaffirm that he did not believe in compensating landlords, in the application of the taxation of land values. If

¹¹ "The Rt. Hon. J. Ramsay MacDonald," London, Marlowe Savage, 1924.

¹² H. Hessel Tiltman, "J. Ramsay MacDonald, Labour's Man of Destiny," London, Jarrolds, 1929, p. 26.

¹³ Geiger, *op. cit.*, p. 238 n.

¹⁴ Henry Mayers Hyndman, "Record of an Adventurous Life," New York, The Macmillan Co., 1911, p. 258. Quoted by Geiger, *op. cit.*, p. 237.

¹⁵ Geiger, *op. cit.*, p. 239 n.

¹⁶ Henry George Collection, New York Public Library (hereafter abbreviated as HGC), June 22, 1884. Quoted by Geiger, *op. cit.*, p. 239 n.

¹⁷ Henry George Jr., *op. cit.*, p. 423.

the land belonged "in usufruct" to the people, there was no justice in making the people buy back what was by right their own. "Because I was robbed yesterday, and the day before, and the day before that, is it any reason that I should suffer myself to be robbed today and tomorrow, any reason that I should conclude that the robber has acquired a vested right to rob me?"¹⁸ he had asked in "Progress and Poverty." He did not believe in buying out the land profiteer, but rather in taxing him out.

After making clear his own course, on the subjects of Socialism and compensation, to the various factions who wanted to swerve it, he started forth to face the common enemy, symbolized in England as "the Dukes."

The opening meeting of George's tour was held at St. James's Hall, London.¹⁹ Ordinarily he made no preparation for a speech except that beforehand he meditated on its subject, usually stretched out on a sofa, smoking. Occasionally he made a brief skeleton of topics which he might or might not use. But this event was to be so tremendously important that he worked hard on his speech during most of the two days and the two nights previous—dictating to his son and another stenographer alternately, continuing until time to dress hurriedly and hasten to the meeting.

Even though the London correspondent of *The New York Tribune* reported that "People of the better sort find a difficulty in taking Mr. George seriously,"²⁰ every one of the four thousand seats in the great hall were occupied, as well as all available standing room. John Ruskin was to have presided, but ill health kept him away and Henry Labouchere, M.P., editor of *Truth* (London), took his place. To quote briefly from the lengthy write-up in *The London Daily News*:

The Chairman, in introducing the lecturer, said that like Byron, Mr. George had written a book, and had awaked to find himself famous. In all parts of Great Britain Mr. George's name was a household word. . . . In "Progress and Poverty" Mr. George did two things, he pointed out lucidly and eloquently the evils of our system of land tenure and he suggested a remedy for them. With the denunciations of the present system he thought they must all agree. It was a matter of wonder that a nation pretending to some degree of intelligence should have assented so long to be disinherited from its own soil or that a people pretending to some degree of common sense should have assented so long to allow the landowners of this country to legislate in their own exclusive interests.²¹

Just before the protagonist, frightened as usual, arose to speak, he whispered an order to his friend Thomas F. Walker to "pull his coat-tail

¹⁸ "Progress and Poverty," p. 365.

¹⁹ Jan. 9, 1884.

²⁰ London, Jan. 10, 1884. Appeared in *The New York Tribune*, Jan. 24, 1884.

²¹ Jan. 10, 1884.

if he continued too long."²² Although the coat-tail was not pulled and the talk was long, the affair was a huge success. Only a synopsis of the penned speech was delivered—practically none of what had been prepared with such labor. The *Daily News* reported George closed his long and brilliant speech with the question:

How could they defend the right of a few in England to own the land on which they all must live? They could not defend it as the divine right of kings was awhile ago defended. . . . Addressing in conclusion a few words to working men, Mr. George impressed on them the necessity of working not for themselves but for those even lower than themselves. . . . The man of skill could fight for the man of no skill— the poor imprudent laborer. When they raised him they raised society at its foundation and that was the only way in which real advance could be made. It was in that spirit that he appealed to them. He appealed not to envy, nor hatred, nor uncharitableness but to love of their fellow men. . . . Let English people make England truly the free home of free men—men equal in their rights, men who knew their duties and would perform them; and in doing what they could for that end they would be doing it, not for their country alone, but for the whole civilized world.

The ovation which followed produced such an effect that all the English, Scottish and Irish papers commented upon it. Some of the Tory journals, however, took umbrage at the part of the speech where George said that if the unearned increment were collected for public needs, among those benefited would be orphans and also there would be enough to "give every widow, from the lady who sat upon the throne down to the poorest laborer's widow, a pension." Long afterward George referred to this innocently intended comment:

At my remark "that every widow from the Queen down ought to have a pension, not as a matter of charity, but as a matter of justice" I meant no disrespect to Her Majesty, but it was misinterpreted by part of the audience.²³

After this meeting in London, addresses followed in many towns of the United Kingdom, north as far as Wick and Keiss and west. George wrote to Dr. Taylor:

I have been riding all day and far into the night over hills of Skye and speaking on hillside to gathered crofters. . . . I have been working hard this trip, speaking every night but have stood it well though I am very tired. I have been sowing good seed and it will not be long in germinating.²⁴

²² See Henry George Jr., *op. cit.*, p. 425.

²³ Meeker Notes, typed; in the private collection of the author.

²⁴ Skye, Jan. 4, 1884, HGC.

Of the big cities in which he lectured, Glasgow was the most fruitful. There he spoke twice, both times in the City Hall. On the first occasion he made his "Scotland and Scotsman" speech,²⁵ which became famous. In it he pictured the hideous poverty of the crofters and the colliers as well as the laboring class in the cities. He did not mince his words:

You people in Glasgow not merely erect church after church, you have the cheek to subscribe money to send missionaries to the heathen. I wish the heathen were a little richer, that they might subscribe money and send missionaries to such so-called Christian communities as this—to point to the luxury, the very ostentation of wealth, on the one hand, and . . . to your men and women with bodies stunted and minds distorted; to your little children growing up in such conditions that only a miracle can keep them pure! . . . In this great, rich city of yours there are to-day numbers and numbers of men who cannot get employment. . . . Such a state of things is but typical of that which exists everywhere throughout the civilized world. . . . And [if you seek] the reason of this state of things, . . . you will come at last, I believe, to the great fact, that the land on which and from which it was ordained that all mankind must live has been made the private property of a few of their number. . . . Proclaim the grand truth that every human being born in Scotland has an inalienable and equal right to the soil of Scotland. . . . It is not necessary to divide the land. You can easily take the revenue that comes from the land for public purposes. There is nothing very radical in this; it is a highly conservative proposition.²⁶

After the close of this address some five hundred persons remained to take part in establishing an organization to which Richard McGhee²⁷ gave the title of the Scottish Land Restoration League. At a second and overflowing meeting held a week later in the City Hall, close to two thousand names were handed in for enrollment. Similar societies were promptly formed in Dundee, Aberdeen, Inverness, Edinburgh, Greenock and several other large towns. But if the multitudes were flocking to George's banner there were still those who thought him a crank. Frederic Harrison, the Positivist, delivered lectures against him in Edinburgh and New Castle, and John Bright, in Birmingham, inveighed against the "wildest" reform "imported lately by an American inventor."²⁸

²⁵ New York, Robert Schalkenbach Foundation, 1944. Also, London, Henry George Foundation of Great Britain.

²⁶ *Ib.*, pp. 4-5.

²⁷ Richard McGhee, from Lurgan, North Ireland, was one of George's first and staunchest adherents in Europe. He was Member of Parliament for a constituency in Glasgow, Scotland, for many years. His son, Henry George McGhee, is now carrying on in the House of Commons.

²⁸ Henry George Jr., *op. cit.*, p. 430.

II

Society's Mixed Reception

HENRY GEORGE HAD SET OUT on this tour of propaganda braced for opposition from special privilege, vested interests and from entrenched intolerance, but the most difficult incident he had to go through took place when he spoke at the University of Oxford. True, he was not locked in a hotel room, unable to get out until after the lecture time had passed, as Michael Davitt had been when he went to speak at the ancient university, but the American's experience was an unhappy one, nevertheless. And this, in spite of the fact that during his two days' stay in the town, he and his son were the guests of that rare host and distinguished oriental scholar, F. Max Müller. From 7 Norham Gardens George wrote to his wife:

Here we are at Max Müller's: a beautiful place, splendid man, nice family, everything charming only I am suffering from my old enemy, sleeplessness. I hardly got any sleep last night; have been like a drowned rat all today and now tonight it is as bad as ever until in desperation I have got up and started to write. . . . I am to lecture before a magnificent audience of University people tomorrow night. The only thing I fear is my condition.²⁹

Alas, as it happened he had to face worse than his own condition! The lecture, held in the Clarendon Assembly Room, was attended by men and women prominent in the University; but in the audience, which consisted chiefly of undergraduates, sat a group of ill-mannered young Conservatives who kept up a disturbance throughout the proceedings. Prepared though George was for "heckling," this performance made a smooth discourse almost impossible and he shortened his address and invited questions. But questions were not proffered in any spirit of honest inquiry; rather were they harangues, statements of private, biased opinions, and the exchange lacked even the dignity of debate.

From one quarter came intellectual challenge. Alfred Marshall, lecturer on political economy at Balliol College, announced that he had "read Mr. George's book from one end to the other; there was nothing in it both new and true; what is true is not new, and what is new is not true." To which the American replied quietly: "I accept your statement. It is a correct criticism; social truth never is, never can be new; and the truth for which we stand is an old truth; a truth seen by men everywhere, recognized by the first perceptions of all men; only overclouded, only obscured in our modern times by force and fraud."³⁰

²⁹ March 6, 1884. Private collection of the author.

³⁰ See George's lecture, "Justice the Object, Taxation the Means," printed in Henry George Complete Works, "Our Land and Land Policy," New York, Doubleday Page & Co., 1904, p. 297.

The speaker won the approval of a large part of the Oxford audience. But disorder flared up again when one of the prime disturbers denounced George's proposal as a "nostrum" that was "scandalously immoral." The heckler delivered his condemnation in a tone that, although it produced cries of disapproval as well as those of assent, goaded the guest into saying that he would have to withdraw the compliment he had paid the University earlier in the evening, concerning its learning and good manners. The uproar was only stilled when the chief attacker stated that he had meant to cast no aspersions on Mr. George's character but had only meant to criticise his ideas.

It was not until after the disagreeable performance was over that the American realized that his arch-tormentor was the son-in-law of Max Müller. Going to his host, George apologized for having permitted the young man's ragging to disturb him. Professor Müller was much moved and apologized that his guest should have been subjected to a public insult from a member of his family, the offense being particularly flagrant since it came from one who had not even read "Progress and Poverty" and therefore did not know what he was talking about. The incident, ugly as it was, and which George later told his wife reminded him of the hoodlums of San Francisco, resulted in strengthening the bonds of friendship between the Oxford don and the American economist.

At Cambridge later, however, the lecture George delivered to a very large audience went off with dignity and order. A side light on this experience comes from the diaries and letters of Mary Gladstone, daughter of the then Prime Minister. Months before she had read "Progress and Poverty," "supposed to be the most upsetting and revolutionary book of the age,"³¹ and had reported her father as "reading it too." Of the effect it had on "W. E. G." she makes no record. But she herself had "finished 'Progress and Poverty' with feelings of deep admiration—felt desperately impressed, and he is a Christian."³² At the time of the Cambridge lecture she met George at the home of Professor James Stuart and writes that he "deeply impressed us with his earnestness, conviction and singleness and height of aim."³³ Her diary criticism of his lecture says:

Certainly he had a good deal of the genius of oratory about him, and sometimes the divine spark—he is also the man possessed, and he often carried one away. Questions were asked him of all kinds at the end. He

³¹ Lucy Masterman, editor, "Mary Gladstone, Her Diaries and Letters," London, Methuen and Co., Ltd., 1930, p. 293, "August 17, 1883."

³² *Ib.*, p. 293, "Sep. 6, 1883."

³³ *Ib.*, p. 306, "March 9, 1884."

did not flinch, and had a wonderful way of leaping to his feet and answering with great spirit and manliness.³⁴

To her cousin Lavina, wife of Bishop Talbot, she wrote:

Well, we have had our Georgian struggle and alas, instead of converting him, he much more converted us. We had a huge talk with him. . . . I think he impressed us all very deeply, and even if his remedy left the world in as bad condition as it now is, I feel unshakable admiration for the man who is fighting the battle. I often feel that we have no business to have one moment of peace or happiness because of the intense misery around us. He has not a moment's rest because of it and I honor and revere him for it.

I was very sorry indeed to hear how disagreeable had been the meeting at Oxford. At Cambridge, though they utterly disagreed with him, they treated him with courtesy. Arthur Lyttelton and Professor Stuart went with me: they both were struck. He answered questions in such a spirited way, I thought, leaping to his feet, and sometimes his action is so fine. We mean to tackle him once more.³⁵

And "tackle" him they did, some days later, in London, at the home of Lady Arthur Cowell Stepney. "There," continues Miss Gladstone, "we had over tea and muffins a conference with Mr. George—Herbert [Gladstone] and Professor Stuart chief questioners and examiners, Alfred Lyttelton listening and putting in much sympathizing with Mr. George. A great success for they liked and softened toward the good little man, and as for Maggie [Lady Stepney] she was converted."³⁶ The good little man realized that he had made a good little impression for he wrote to his wife: "They are at least three quarters with me."³⁷

In London George made four more speeches, and then his three and a half months of continuous lecturing in Great Britain was brought to a close at a farewell dinner, tendered him by the Land Restoration League. Crossing over to Ireland, he spoke to a large audience in Dublin, before he sailed, on April 13th, for New York.

His visit to Europe had been strenuous and packed with responsibilities, but from it George derived such encouragement and inspiration that he counted the work light. During his journeyings there had been the usual lapses into absent-mindedness and the frequent forgetfulness as to his belongings. On one railroad train he mixed his luggage with another passenger's and found to his dismay, and too late, that he had in his posses-

³⁴ *Ib.*, p. 307, "March 10, 1884."

³⁵ *Ib.*, pp. 307-8. Letter dated "Selwyn College, Cambridge, March 12, 1884."

³⁶ *Ib.*, p. 310, "March 28, 1884."

³⁷ March 29, 1884. Letter in private collection of author.

sion a bag, externally like his own, but containing a much worn pair of woman's shoes instead of his precious manuscripts. Wiring back along the line for information about his treasure, he received a complaint against the man who had stolen a valuable pair of lady's shoes and stuffed in their place a bunch of waste paper!³⁸

Always and everywhere he asked questions. Frequently they seemed to the questioner to be abrupt—but that was because he made straight for his point without wasting time on preliminaries. Possibly he was not a diplomat in the narrow sense of the word, yet by his understanding and sympathy he could win through the wall of reserve to a man's heart. Although he often joked with a serious face, only the corners of his eyes laughing, rarely did he indulge his power of sarcasm. His manner was genial; he was kindly, especially to the ordinary people, lowly, defenseless. A great respecter of *persons*, he had no sympathy for caste or feeling for worldly position. ("Don't you ever let me hear you use the expression 'our class' again," he said years later to his youngest child. "There are no 'classes.'") He could derive interest and information from conversation with duke or donkey-boy. It was typical of him to try to get the other fellow's point of view—to eliminate himself in conversation. He delighted in hearing unbiased criticisms of himself when sometimes talk with strangers would turn upon the "American inventor." Often their reactions were amusing and he occasionally found himself described "a Yankee with a Yankee's money-making scheme," a "pestilential agitator,"³⁹ or such. Sometimes he, still keeping his identity unknown, was able, by taking the conservative side, to argue so skillfully against the cause he really espoused, using the *reductio ad absurdum*, that he had the erstwhile antagonists finally defending the stand they had at first condemned. However, he was attacked constantly by the unsympathetic press, and sometimes anonymously by mail, as by "An Indignant Briton" who asked angrily why he "did not before coming over here, endeavor to convert his own nation to his most immoral and dishonest doctrines?"⁴⁰

During this inspiring, albeit difficult, trip through Great Britain, old friendships were cemented and new ones formed. Wilfred Maynell, editor of a Catholic paper, *The Weekly Register*, wrote of an episode of this time:⁴¹

³⁸ Henry George Jr., *op. cit.*, p. 441.

³⁹ See Henry George Jr., *op. cit.*, p. 440.

⁴⁰ Feb., 1884, HGC.

⁴¹ *The Daily Chronicle*, Oct. 30, 1897. Quoted by Henry George Jr., *op. cit.*, p. 438.

It was my great privilege to introduce Henry George to Cardinal Manning. I have a vision of the two profiles facing each other in the dim light of the growing dusk, and I recall the emotion of tone in which each man made frankly to the other a sort of profession of faith. They had traveled to the same goal from opposite directions. "I loved the people" said Henry George, "and that love brought me to Christ as their best friend and teacher." "And I," said the Cardinal, "loved Christ, and so learned to love the people for whom He died."

Trade Barriers in the Post-War World

THE ALL-IMPORTANT ECONOMIC problem of the postwar world is the removal of trade barriers. One of the general resolutions of the Bretton Woods conference gave recognition to the problem but detailed consideration, even if the delegates had been so inclined, was precluded by the fact that the conference was called to formulate plans for a Fund and Bank.

Prior to this war, international trade was hampered not only by various tariffs but also by arbitrary import quotas, regional preferences, linked utilization arrangements, bilateral barter agreements, import monopolies, export subsidies and arbitrary customs procedure. Unless the channels of international trade are reopened, currency stabilization and foreign investment will rest on an ephemeral basis. The world will have been lulled into a false sense of security. We shall have the shadow of stability without the substance. We shall eventually realize that the solution of our basic economic problems has become infinitely more difficult. Perhaps the most dangerous aspect of the Bretton Woods proposals is that they may serve as an obstacle to the immediate consideration and solution of these basic problems.

In two important documents, the United Nations have solemnly committed themselves to the immediate removal of trade barriers. The first was the Atlantic Charter and the second, the Master Lend-Lease Agreement. President Roosevelt and Prime Minister Churchill agreed in the fourth article of the Atlantic Charter that they would endeavor "with due respect for their existing obligations, to further the enjoyment by all States, great or small, victor or vanquished, of access, on equal terms, to the trade and to the raw materials of the world which are needed for their economic prosperity." It is interesting to note that Sumner Welles in his recent volume, "The Time for Decision," states that the well-known reservation, "with due regard for their existing obligations," was inserted at the insistence of Mr. Churchill, in order to take care of "what it was hoped would be merely temporary impediments to the more far-reaching commitment originally envisaged in that article."

The time has come to implement the solemn commitments contained in the Atlantic Charter and in the Lend-Lease Agreements. Unless tariffs are substantially reduced and other trade barriers are eliminated now, and unless all nations are given equal access to the trade and raw materials of the world, the economic basis for currency stabilization or international investment will not exist.

• R E V I E W S •

Some Economic Issues in Soil Resource Conservation

By DONALD B. IBACH

CONSERVATION OF SOIL resources will continue to be a challenging subject irrespective of changes in the need for food and fiber production. In any practical sense, soil conservation is a flexible concept, and is conditioned by the intensity of these needs. It must also be thought of as related to broader resource conservation problems. Types of resource conservation measures will vary according to demands that are placed on all resources and the changes in technology that permit substitution of one resource, or its derivative, for another. It is to be hoped that measures used will attempt to maintain such balance in the intensity of use of different natural and capital resources as will maintain a reasonably stable and continuous national income that will be associated with full employment. Desirable soil conservation measures would attempt to maintain soil fertility at the highest level consistent with these broad criteria. National, state, and local policies should prevent the outright waste of soil resources that is represented by under-utilization, or by unnecessary erosion that follows from uneconomic use or wasteful practices. Many of the instruments to put such policies into effect are now in existence; but whether appropriate measures become effective will depend in part upon what we do along other lines, including complementary production and trade programs with other nations, and how high a level of non-agricultural employment we maintain in this country. These things bear heavily on the incomes of individual farmers, affect their stability of tenure and their ability to stabilize fertility of the soil.

These and other matters are dealt with in a book¹ that presents an effective statement of the economic issues involved in soil resource conservation. The book forms the basis for further elaboration herein of some of these issues, together with a presentation of views that are somewhat divergent in certain respects. If justification is needed for what in substance is a lengthy review, let it be said that certain critical comments to follow notwithstanding, this stimulating book about a subject of such material importance is sufficiently worthy to warrant the indulgence.

¹ Arthur C. Bunce, "Economics of Soil Conservation," Ames, Iowa, Iowa State College Press, 1942.

Economics of Soil Conservation is broadly divided into three main sections. The first section deals with the tools of analysis, the second with the individual's concern with the problem, and the third with society and conservation. The second section demonstrates the use of the tools of analysis with somewhat more effect than the first section describes them. There is a place for such description, however, and it is well presented by the author, except for some confusing elements that are herein discussed. But the treatment of the individual's concern with conservation is easily the outstanding part of the book. Technical and administrative personnel associated with public conservation programs should find much of value to them in the second and third sections although the latter would have benefited from a more quantitative treatment.

Chapters 4 to 7, dealing with the individual and conservation, present a thorough and clearly stated analysis of the effects of exploitation of virgin fertility. Soil fertility is exploited, giving rise to increasing rent that includes "quasi-rent," all of which is erroneously capitalized into increased land value. This leads to higher fixed costs that in turn give rise to demands for monopoly practices in specified areas to the detriment of other areas. During exploitation, institutional services are developed that local tax bases cannot support after soil fertility has been carried to lower levels. The analysis given of the effect of rising and falling prices on conservation and the effect of changing price relationships in single crop and in diversified areas explains the existence of much of our conservation problem. In like manner, the effect of our comparative advantage in producing exploitive crops on the loss of "soil capital" associated with exports, is well presented.

It is in the second section that the important difference between depletion and deterioration is brought out as a basis for determination of conservation policy on the part of either the individual or society. It is important to know whether yields decline because of replaceable fertility depletion or non-replaceable erosion losses, even though the effect on current returns (uncorrected for capital losses) may be the same in either case. Under conditions of erosion, it is pointed out that it is economic to conserve soil when the capital value of the annual loss in fertility is equal to net rent under exploitation. This generalization assumes that the costs of stabilization of soil fertility are equal to the capital value of the loss. There are situations, as is recognized later in the book, where the net returns to the farmer may be maintained or even enhanced by adopting a conservation system, as well as the more common situation in which the cost of stabili-

zation is materially less than the capital value of the loss in fertility under exploitation. In any of these situations it would pay to conserve at an earlier point in time. A quantitative illustration of how this principle operates would have strengthened the analysis. Thus, it could well have been shown how varying levels of conservation cost as well as varying interest rates, affect the point in time at which conservation becomes economic. Such a quantitative illustration should also show the maximum justifiable expenditure for soil conservation, the optimum level at which to stabilize soil fertility, and whether society or the individual should bear the conservation costs at any given point in time. These matters are of importance in the determination of policies that affect the action of individuals, particularly when conservation is economic to them under existing institutional arrangements or under special conservation credit machinery that might be made available. The book treats of these and other matters, but inclusion of illustrations of concrete conservation problems on farms under different sets of circumstances would have added value as a practical guide for technical workers assisting farmers, and for policy makers in recommending public action programs to meet conservation needs in homogeneous areas or on farms that are similar with respect to this problem.

The Primary-Secondary Production Mirage

In the second section, Professor Bunce states a simple truth in fact with which he deals with much less effect and conviction in theory, in the earlier chapters. He says, "The essential point that needs to be stressed is that conservation planning is not purely concerned with land use and primary production, but must also deal with secondary production if it is to be practical and realistic." Thus, conservation is part of the production process, and the effect on total income must be reckoned with, irrespective of the source of the farm income. In chapter 2, however, there is an attempt to make a case for a fundamental distinction between primary and secondary production because, "any loss in income due to a reduction in the intensity of primary production in order to control erosion may be offset by an increase in the intensity of secondary production." This is a good common sense statement, but it lacks much of explaining the claimed "fundamental" difference. It is necessary to recognize that there are differences in elasticity as between different types of primary production as well as between primary and secondary production. A shift from cotton to truck crops (both primary) might represent a marked change in the size of business and income per acre, and enable the farmer to practice con-

servation where he could not afford it before. It is, of course, important to recognize the desirability of secondary production where applicable, as an aid to conservation.

There are a number of questionable statements in the first three chapters. For example, in speaking of efficiency as being the ability of the factor in question to earn returns, it is stated that differences in the ability of land to earn returns are due to many factors including "the efficiency of any secondary production taking place in the farming system." If poor returns from farming are obtained on fertile soils because of poor management of secondary production, can it be said that the land is inefficient? If the farmer is so inefficient a hog producer that he would have received more for his corn had he sold it directly as a cash crop, it assuredly does not follow that the land is inefficient. In this instance, consolidating the returns from the two types of production attributes efficiency of secondary production to efficiency of land. This, by implication, credits efficiency of secondary production with directly determining (along with other things) rent and value of land when only the opportunity for engaging in it may influence the value of primary production, the rental share of which is capitalized into land value. But in the matter of conservation, there is no basis for the attempted fundamental distinction as between primary and secondary production. The highest alternative use might well be a highly profitable type of primary production, and the choice may therefore be one of selection of enterprises within this field. In analyzing the economics of soil conservation it is simply a case of selecting the combination that will yield highest returns, including soil fertility losses as a supplementary cost. The consideration then is one of individual time preference in those cases where meeting the cost as it occurs would reduce the value of goods produced in the present.

For purposes of analyzing the economics of soil conservation, Professor Bunce suggests that primary and secondary production can be separated into component parts through making a complete farm management analysis which would show the relationships of costs and returns as between the two types. One might ask, "What is the cost of growing wheat when used as a companion crop for clover that is fed on the farm?" In many cases, it is necessary to credit some of the returns from feeding the clover, to wheat, if one were to justify the latter. Yet, it is necessary to grow the wheat in order to utilize all resources and secure the total income needed. Conduct of the suggested analysis along production economics lines reveals the lack of any fundamental distinction between primary and secondary

production insofar as the subject is related to the decisions a farmer must make in harmonizing income with conservation. It is simply a question of additional total costs and additional total returns over time when considering different alternatives, whether they involve purely "primary," or "secondary," production or a combination of the two.

The asserted fundamental distinction between primary and secondary production breaks down in another instance when it is stated in one sentence that whether intensity leads to conservation depends on whether it is primary or secondary. An illustration is then given of how an increase in primary intensity may mean either conservation or further exploitation, depending on its form. In a practical sense, the same can be said of secondary intensity. Intensified dairy production may result in exploitation or in conservation, depending on the way in which it is associated with primary production. If it is accompanied by an increased acreage of erodible land being devoted to exhaustive cropping without adequate erosion preventing practices, it may very well mean an increase in the rate of exploitation. The same would be true for the land left in pasture, if the latter were too heavily grazed. But if the enlarged dairy enterprise is accompanied with a diversion of erodible land from intertilled crops to hay and pasture use, and the purchase of other necessary feed, the fertility of the land may be stabilized at its present level, or even built up to a somewhat higher level. Some important principles are brought out in the chapters on efficiency, capacity, elasticity, and intensity of land use, but none of these principles is in any way dependent on the assertion that there is a fundamental distinction between primary and secondary production insofar as the analysis of the economics of soil conservation is concerned. Differences in intensity and elasticity, whether within each of these two types of production, or between them, are important in the analysis of the conservation problem. There is a certain amount of lost motion in the attempt to discover fundamental differences in kind of influence as between the two types of production, when the difference is one of degree. Introduction of "roundaboutness" in the production process by means of secondary production enterprises does not change the essential nature of the problem.

Conservation an Aspect of Production

In the early part of the opening chapter on definition of terms, there appears a differentiation between "conservation" as such and "economic conservation." The latter term is used to describe conservation in monetary terms. Thus, when we place a dollar value on the input and output

items involved we speak of it as "economic conservation." Since the goal is to maximize net income over some period of time, the length of which depends on the individual's premium on present goods, one wonders why conservation expenditures are any different from other expenses of production, particularly from the entrepreneurial point of view. Neither are they any different from the social point of view, except that here deferred incomes usually have a higher priority relatively, than in the case of the individual. This is less true at times like the present, when the national need for immediate food production is extremely great. It is assumed that the intention is always that production efforts will be economic, (with due consideration of the appropriate balance between present and future needs) and the book properly emphasizes elsewhere, that conservation is not purely a physical concept. It would be more in keeping with the general theme of the book to speak of conservation (stabilization of soil fertility at the economic level) as opposed to "physical conservation," the latter term meaning simply prevention of the loss of soil itself or unutilized non-replaceable fertility elements.

Conservation expenditures under certain conditions (as is pointed out in the book) may in many instances actually enhance current production, and much confusion could be avoided by simply saying that soil conservation from the public point of view is the management of our land resources in such a way as to bring forth the production that in the interests of society is needed over stated periods of time. To the individual, conservation may mean for the unit under his management, and in which he has his investment, a different level of production, and it will also involve a different period of time. To speak of "economic conservation" seems superfluous and implies that the problems of conservation and those of production are not essentially one, a proposition that is out of tune with the facts and with the general theme of the book. Soil conservation might better be defined as the stabilization of soil fertility at whatever level is dictated by a number of forces including the demand for present goods or income, the interest rate, and competition on the part of other needs requiring use of funds, labor, or materials. When public needs become sufficiently pressing, governments take a hand in influencing the level of production. This was true during the depression when soil conservation expenditures were used to supply employment and to develop fertility reserves in areas where this is permitted by climatic conditions, at the same time that other efforts were made to reduce the level of production. It is true now, when there is a relative shortage of labor and facilities and a need for emphasizing present production.

Classification of Resources

The classification of resources as to whether they are "fund," "flow," or "biological" in character seems not particularly useful to the analysis presented. The purpose of a classification is to set apart those things that are different, and this classification is weakened at the outset, since it must be admitted that the latter category overlaps the other two. Classification is only a tool to serve the purpose of analysis, and it is difficult to discover any necessary dependence placed on this classification throughout the remainder of the book. In fact, toward the end of chapter 1, a much more meaningful classification is stated in terms of reproducibility or substitutability. Thus, conservation has to do with those elements of land that are non-reproducible, or for which there are no known available substitutes. This is in accord with the idea stated elsewhere in the book, that conservation refers specifically to the avoidance of permanent loss in fertility and therefore of capital value. With reference to space utility, it might be added that conservation refers to maximum intensity of the highest use. Exploitation here would be represented by institutional rigidities that tend to withhold it from its highest use or tend to reduce the intensity of its use in satisfying wants.

Individual and Public Expenditures for Conservation

In the chapter, "Society and Conservation," objection is noted to the idea of justifying public expenditures for conservation on the basis of differences in time preference as between the individual and society. The point is made that reasons other than differences in time preference such as lack of information, etc., cause exploitation. The principal point developed however, is that insofar as divergences in time preferences alone are concerned, there would be no difference in the rate of interest that society or the individual will have to pay. This being the case, were it not for other factors affecting the interest rate at which the government can borrow, conservation would become economic to society and to the individual at the same point in time. Professor Bunce therefore suggests use of the term "differential interest," and this takes care of the point in question and also of the appropriate point that society is not justified in using a zero interest rate, since this would imply that physical productivity should never be allowed to decline. The individual with a scarcity of productive capital may borrow from another individual who has accumulated savings because his time preference is higher than the rate he will have to pay for the use of such savings. If the average time preference of all individuals (society's)

is higher than that of a considerable number who have accumulated capital surpluses, the government may borrow from these individuals. But other individuals may also borrow from them. In either case, there is recognition that there is a difference in time preference as between individuals and as between one individual and society. This may constitute good reason for borrowing for conservation expenditures, but it is not the reason for public, as opposed to private, borrowing and spending.

Individual evaluations of present versus future income affect the supply of savings and the rate at which the Government or individuals can borrow funds. Confidence in Government's stability, willingness to pay taxes and support of certain public fiscal policies such as e.g., taxation of idle reserves, also affect the rate at which the Government is able to borrow. Since it would be poor economy to accumulate either private or public funds when their expenditure would result in a more economic use of resources in the present, it is society's function to transfer present costs and benefits in the interest of public welfare. When conservation is uneconomic to the individual but economic to society, it can well be argued that the Government would be subject to criticism if it did not make use of the lower price at which it can obtain funds in order to maintain full use of resources, including appropriate expenditures for conservation.

In the case of soil fertility elements² such as phosphoric acid and potash, that are limited in nature and for which there are no satisfactory substitutes, both the public and the individual farmer are concerned with maintaining the highest level permitted by physical limitations, by the rate of interest at which funds can be borrowed for that purpose, by the rate of return from exploitation and by competition with other needs for the use of funds. The interest rate is determined by a number of factors, including the rate of return from exploitation. (There is a problem here however, in securing recognition that under the type of exploitation represented by soil erosion, the income commonly attributed to the capital investment in land includes an outright capital loss that cannot properly be considered an annual return.) The public is concerned with full utilization of capital and labor within the limits set by the level at which it is economic to stabilize soil fertility and to maintain other vital limited natural resources. The

² Of interest in this connection are three recent statements of desirable national fertilizer policy, two of which are in substantial agreement with respect to use of fertilizer manufactured from mineral deposits as a means of maintaining an economic level of soil fertility. One of these was developed by the United States Department of Agriculture and the other by the American Farm Bureau Federation. A third policy recommendation released under the auspices of the National Planning Association generally favors a use of fertilizer based largely on historical relationships between farm income and farmer expenditures for fertilizer.

validity of using public fiscal policies when necessary, as an instrument for maintaining a level of employment consistent with economic utilization of all other resources, is being widely recognized.

Public Control Measures

The last four chapters deal primarily with the general theme of political action requisite to appropriate public consideration of the conservation problem. Some space is devoted to a discussion of democratic principles as related to social control over land use. The questions of individual liberty and property right vs. the idea of social control is briefly presented. While the latter idea is upheld in respect to land use, perhaps a stronger case could have been made by bringing out those non-replaceable characteristics of land, the value of which is attributed solely to public causes and do not result from contributions of the individual. Development of this theme would have lent strength to the proposition that appropriate social controls over land use are themselves an outstanding manifestation of the application of democratic principles that are thoroughly consistent with the way in which a capitalistic economy is supposed to function. So long as our thinking fails to recognize the essential difference between capital as produced means to production, and those characteristics of our natural resources that are non-replaceable or for which there are no readily available substitutes and that therefore really belong to the public, we shall probably continue to be lacking somewhat in developing clean cut criteria for resolving the conflict between property rights and social controls over the use of natural resources. As it becomes generally recognized that this fundamental distinction is consistent with democratic principles in a capitalistic economy, the way will be opened for more logical action that will meet with a wider degree of public acceptance. The chapter on Social Control none the less presents a broad perspective, and points the way to a hopeful outlook for increasing public action in the conservation field.

Two of the later chapters deal with different methods of social control and general considerations in formulating public policy. Criteria for the adaptation of different methods of control are discussed. The role of action agencies is briefly presented, including the difficulties and inconsistencies resulting from attempting to mix conservation efforts with more or less rigid horizontal commodity production and price controls. The relationship of soil conservation to conservation of all resources is discussed in the last chapter.

The book rightly emphasizes the importance of the budget analysis tech-

nique in determining the economic feasibility of conservation under different conditions. The suggestion is made that a reconnaissance survey along this line is needed. Presumably, this would be conducted on a sample basis with individual farms selected to represent important different combinations of physical and economic problems. The value of such a survey in guiding wartime agricultural production is hinted. For example, such a study would reveal areas and types of farms on which special measures would have application in maximizing production over specified periods of time. The highly productive lands not subject to accelerated erosion should be intensively farmed while lands that will deteriorate rapidly under intensive cropping would produce more food over a five-year period if more conserving systems were followed. This subject is treated particularly in the third section where mention is made of some of the practical problems involved. For example, a simplified land classification is suggested, based on slope and erodibility. The problem here, however, is that soil fertility and crop adaptations must be reckoned with in a useful classification scheme, and these characteristics are not necessarily associated with erodibility. A general scheme of classification embodying fertility and crop adaptation as well as erodibility is needed in order to approach the conservation problem appropriately. Having classified the land along these lines, appropriate subdivisions of the necessary economic factors associated with the management of farms may be added so that finally there would be developed within each agricultural community, a classification of farms based on their adaptation for different crop and livestock combinations.

Soil conservation was emphasized in pre-war years when expenditures for it were associated with efforts to control crop production. Under these conditions it was perhaps too popularly received as a purely physical concept instead of a part of the production process. In the latter sense, it is an economic concept capable of flexibility in application in serving changing production demands and of being related properly to the broader problem of economic use of all resources.

*United States Department of Agriculture,
Washington, D. C.*

The Farm Problem

Small Farm and Big Farm. By Carey McWilliams. Public Affairs Pamphlet 100, Public Affairs Committee, New York, 1945. 10 cents.

THE AUTHOR, formerly State Commissioner of Immigration and Housing in California, writes of trends toward large farms, giving figures for 1910 to 1940. Pressing problems are covered on the relative efficiency of big and small farms. Suggestions to guide prospective small farmers cover size favorable to success as well as industry and care in working and management; also how much to pay as purchase price and conditions under which money should be borrowed.

Mr. McWilliams poses a need for political power to change adverse conditions, but he admits that such power already rests in the hands of monopolies which use pressure in their own interests under false fronts. He leaves farm problems to organizations such as co-operatives and farmers' unions. But his argument for an agricultural policy runs in a circle. For his recommendations include that "special privileges now enjoyed by certain farm organizations" need removing, as well as "present hidden subsidies to industrialized farming" and at the same time he favors government aid for non-commercial farmers, not restricted to price. His best hint is that the hold of food processors and distributors on farm production must be broken. But how to do this and all the rest, he leaves to his readers to find out for themselves.

PRESTON KING SHELDON

New York

A Study in Personality Dynamics

Leadership and Isolation. By Helen Hall Jennings. New York: Longmans, Green & Co., 1943. Pp. xv, 240.

AN INTERESTING attempt in applying the sociometric method to direct qualitative and quantitative data of the social choice process. Dr. Jennings, the collaborator with Dr. Moreno in his pioneer work in sociometry and the initiator of many of socio-metric methods, presents here the work of years of systematic investigation of this choice process. Four hundred and fifty individuals have been studied, correlating their mutual approvals and rejections with the personality traits of all the participants. While the volume is concerned with one specific population, its methodological contribution goes much further. It is a study of the foundations of the capacity to choose, the spontaneous gift of reaching out towards others, and the parallel capacity to make oneself worthy of choice. It is moreover not only a study of social structures but of personality dynamics which the sociometric method here reveals. If sociometric work will maintain

the degree of concreteness and realism that Jennings' study has achieved, it is bound to become not only a major tool of sociological analysis, but a major aid in the systematic study of personality.

JOSEPH S. ROUCEK

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Modern Problems Analyzed

For the Good of All. By Gilbert M. Tucker. New York: Fleming H. Revell Co., 128 pp., \$1.50.

RARELY DOES one pick up a book dealing with the economic and political situation that is as forthright in its treatment of basic causes as this one. Here is a brief but comprehensive and clear-cut analysis of modern problems.

Basing his findings on an intelligent appreciation of natural law, Mr. Tucker indicates how our complex situation can be cured by a return to the fundamental principles of economy and government.

Beginning with natural law and the fact of a moral universe, the discussion goes into a treatise on ideals in government and puts its finger on a basic cause of many human ills which the author believes to be the private ownership of land. After giving a brief account of the philosophy of Henry George, the book goes on to outline the benefits that would accrue if the suggestions presented by that great American were adopted.

Compared with most of the studies which deal with current issues, this one is like a breath of fresh air. Here is a writer who has found his way and who has arrived at a solution. Not only does he indicate the answer to the riddle of our national economy, but he lays down certain principles for the conduct of international trade that will eventuate in permanent peace.

A book by Gilbert Tucker is always fresh, pungent and spiced with humor and brilliant witticisms. This one, his newest work, is written for men who believe in a moral universe and who want guidance in ascertaining how sound ethical principles can be applied to the institutions of a modern industrial society.

Though this book is full of suggestive material for the confirmed Georgist, it might prove a source of irritation to one who has never sufficiently penetrated the heart of that doctrine to be convinced of its validity. There are, nevertheless, many reasonable and self-sufficient statements on every page that will challenge the conventionally minded economist into doubting the accuracy of his own convictions and urge him to investigate more fully this avenue of interpretation.

Batavia, N. Y.

W. WYLIE YOUNG

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